EXTENDED UNEMPLOYMENT COMPENSATION PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

OF THE

COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

ON

H.R. 4469

TO PROVIDE AN IMPROVED PROGRAM OF EXTENDED UNEMPLOYMENT COMPENSATION, AND FOR OTHER PURPOSES

JUNE 24, 1986

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EXTENDED UNEMPLOYMENT COMPENSATION PROGRAM

TUESDAY, JUNE 24, 1986

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATION,
Washington, DC.

The subcommittee met, pursuant to call, at 10:15 a.m., in room B-318, Rayburn House Office Building, Hon. Don J. Pease presiding.

[Chairman Ford submitted the following opening statement:]

OPENING STATEMENT OF CONGRESSMAN HAROLD FORD (D., TENN.), CHAIRMAN, SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

Today, we will take testimony on the bill H.R. 4469, introduced by Congressman Pease. This legislation would revise the current extended benefit program. In addition, the bill would provide for demonstration projects to test the idea of paying extended benefits in substate areas and provide incentives to States to be more aggressive in approving training programs for individuals receiving unemployment benefits.

This hearing is very timely. The civilian unemployment rate is 7.3 percent nationwide, representing 8.6 million jobless workers. Over 1.1 million have been out of work for 27 weeks or longer. Yet only 35 percent of the jobless are receiving unemployment benefits. Of the long term jobless, the very people the extended benefit program is designed to serve, less than 2 percent are receiving unemployment benefits.

I hope that we will hear two things today. One, why the current extended benefit program is triggered on in only two States. Two, what needs to be done to improve unemployment insurance protection for the long term jobless. H.R. 4469 challenges us to answer both questions and I commend Mr. Pease for introducing the bill.

I look forward to the testimony.

Mr. PEASE. The hearing of the subcommittee will come to order.

Chairman Ford is not able to be with us this morning, so I will be presiding and will be calling our first witness in a moment or two. First of all, I would like to read an opening statement of my own.

Last year, as Congress struggled with the question of whether or not to extend the Federal Supplemental Compensation Program, some of us were working toward a more ambitious goal—the overhaul of the entire unemployment insurance system. While the fate of FSC was still undecided, we had some success with the overhaul idea. My reform bill of last year, H.R. 1072, was favorably reported by this subcommittee, but once Congress and the President agreed to a phaseout of FSC, whatever momentum for reform we had been able to generate pretty much died.

I am glad that the subcommittee is taking up the broader question again. I want to take this opportunity to commend Chairman Ford for his continuing commitment to keeping this issue alive.

I am still convinced that reform deserves our serious attention now. To me it is plain common sense that we take up reform while official unemployment levels are relatively stable. Sooner or later we will have to correct the serious problems with the extended benefits program system, which became so painfully apparent during the last recession and its aftermath.

On March 20 I introduced H.R. 4469, the Extended Unemployment Insurance Reform Act of 1986, and I am glad to report that the bill has collected 21 cosponsors so far. I consider it an innovative bill, and I hope that our dialog today can address the bill's provision calling for a test of the concept of substate triggers.

Frankly, we have had too many inconclusive arguments on that approach to providing benefits. H.R. 4469 would give us the field data we need to properly assess this idea that has been on the table for so long.

I think any reasonable assessment of the current unemployment insurance system would have to conclude that it would be inadequate to deal with the unemployment levels that the country endured just a few short years ago. I have maintained for some time that we should not forfeit the opportunity to consider this important issue in a calm and thoughtful manner while we have the chance. If we wait until the unemployment rate starts climbing, Congress is much less likely to do a thorough and careful job of reform. The pressures to take action—any action—will be just too great. If we tackle the problem now in a moderate and measured way, we can prudently position ourselves to cushion the blow of any sudden economic downturn.

As matters stand, our unemployment insurance system is simply not prepared for a downturn, which history tells us will eventually come. I am looking forward to hearing from the administration and the others who are here to talk with us today.

Now let me call our first witness, who was to be Mr. Semerad, the Assistant Secretary for Employment and Training. I understand that he is ill with the flu, and that he will be represented by Ms. Shirley Peterson, the Administrator for the Office of Employment Security. Ms. Peterson, I will be happy to have your testimony.

STATEMENT OF SHIRLEY PETERSON, ADMINISTRATOR, OFFICE OF EMPLOYMENT SECURITY, U.S. DEPARTMENT OF LABOR, ON BEHALF OF ROGER D. SEMERAD, ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING, ACCOMPANIED BY CAROLYN GOLDING, DIRECTOR, UNEMPLOYMENT INSURANCE SERVICE, AND JAMES VAN ERDEN, CHIEF ACTUARY

[The Labor Department's prepared statement begins at p. 72.]

Ms. PETERSON. Good morning, Congressman Pease. We are pleased to be here this morning. I am Shirley Peterson, Administrator of the Office of Employment Security. As you mentioned, Assistant Secretary Semerad would have liked to have been here but he is ill this morning.

I am accompanied by Carolyn Golding, the Director of the Unemployment Insurance Service, and Jim Van Erden, the UIS Actuary.

I would like to take a few minutes to make some general comments before commenting on the specifics of bill H.R. 4469, Extended Unemployment Insurance Reform Act of 1986.

As I am sure you know, the primary purpose of unemployment insurance is to provide short-term income support, while workers make job changes that are so important and necessarily inherent in our dynamic economy. That short-term income support program has worked very well over the years.

We have a concern just as you that the UI program has had increasing difficulties in recent years with long-term unemployed claimants within it. The UI, as it is structured today, is not the best vehicle for helping the long-term unemployed. As Secretary Brock and Assistant Secretary Semerad have looked at this question they, just as you, have some concerns about how we deal with the readjustment process for the long-term unemployed.

When we look at the trends in the labor market for the future, as we look to the year 2000, we know that the labor market entrants will grow more slowly. There will be continued significant shifts from goods production to the service industry, and therefore increasing numbers of people who will be changing their positions and need assistance as they move from one job to another. Vacancies for high-skilled jobs will need to be filled. What we need to do, really, is to find some ways to intervene, and to facilitate that transition of the long-term unemployed workers, so they can reenter the mainstream of the work force just as quickly as possible.

Sometimes our well-intentioned attempts can have the opposite effect. As we look at the extended benefits program issue we need to be very thoughtful and pay careful attention to any type of delivery that raises the false hopes of the unemployed, and creates disincentives for people to be able to reenter the mainstream of the marketplace.

It is a priority, certainly, with this administration, to sort out and to determine more clearly how we then deal with long-term unemployed, to help and assist them to get back to work faster.

There are four things that the Department is addressing related to that. First, as you I am sure are aware, we presently have a demonstration project in the State of New Jersey that we reported to you earlier this year, in which we want to identify claimants who are likely to be unemployed 26 weeks or more, and in dealing with these people, provide interventions which will help them be reemployed faster. These would include intensive job search assistance, the alternative of retraining where necessary, relocation assistance as a third option, and wage subsidy for rapid reemployment. Through this demonstration project over the next year, we certainly hope to begin to develop empirical data that will help us to know how we can better deal with these people.

Ten million dollars has been requested in the President's fiscal year 1987 budget to continue this project, and to replicate this project in two more States. Secretary Brock, third, has established a task force over this last year to examine the policies for dislocated workers. This task force is scheduled to provide a report to the Department at the end of the year.

Fourth, within the Employment Training Administration, Assistant Secretary Semerad has developed a policy group to look within the Department to see how the programs of the unemployment insurance, trade adjustment assistance, and JTPA facilitate the worker readjustment.

With these four actions, we are attempting as quickly as we can to outline some initiatives and direction that we see will be proactive to meet the future labor market needs and deal with the present program.

Along with that, I think it is important for us to note that employment at this point in time is at an all-time high, 109 million people. In the unemployment insurance program we have stabilized the insured unemployment rate at 2.8 percent as of May. The rate of individual exhaustees is lower than it has been since 1980. I believe at the third quarter of 1985 it was 31.7 percent.

Turning to the five specifics of H.R. 4469, looking at title I, which would increase the maximum number of weeks of extended benefits, increase the Federal share of extended benefit payments and substitute two new alternative triggers for the currently calculated IUR.

The Department of Labor reaction to these elements: First of all, these changes would result in trigger calculations that we could not substantiate validity for. In other words, we have doubts about the validity of the manner in which these calculations would be determined. It would raise the cost of the EB program greatly. Our estimates suggest outlays of $80 million by 1987 and $360 million in 1988, this all assuming that States could enact conformity legislation by July 1, 1987, which probably is unlikely also.

If we were to project the costs of title I into a climate which we had in 1982-83, unemployment rates, the cost would move to $480 million, to $1.8 billion by 1987-88 respectively. We must oppose this proposal, based on those observations.

Title II requires the Secretary to conduct two demonstration projects, one on the feasibility of using substate area triggers, and one to promote training programs for individuals receiving unemployment.

Again, the Department's reaction to these.

If you will recall, the Department of Labor reported to Congress in 1984 on the feasibility of using substate area triggers and described the problems of accuracy that we would have as well as timeliness, equity among claimants, and the resource requirements involved in establishing these area triggered programs. Some of our concerns apply also to the demonstration project as well as the permanent law change.

There are no resources available in the 1987 budget proposal, and even if there were, I believe that the results from the demonstration project would be flawed, and not justify our costs that it would generate.

Assistant Secretary Semerad and Secretary Brock do believe that the second project that relates to training would be redundant to the New Jersey demo project that we presently have initiated, and is currently underway. Again, we believe that the elements of that project for earlier interventions for the long-term unemployed is

going to give us some data that will lead to some new options for dealing with long-term unemployment.

We also cannot support on a basis of equity between the debtor States the proposed permanent change to Federal law in title II that permits States to credit the amount of UI benefits paid to individuals in training against the interest due on the loans.

We defer to other Federal agencies the section which speaks to procurement programs at the billion-dollar level, and to OMB for comment on title III relating to targeting for procurement of supplies and equipment in labor-surplus areas. It does appear to us that determining the impact of those contracts awarded on unemployment rates and the benefits paid under the EB program would be extremely difficult for us to do, if not unattainable. Within a timeframe certainly of 6 months after the end of the fiscal year, it just simply would not be possible to gather this type of information.

Title IV requires the Secretary to furnish special report information to the Congress on the costs and the accomplishments of the nationwide computerized job bank and the job matching system. Let me just take a minute to make a couple of observations on that aspect from the department viewpoint.

We currently furnish the annual report on implementing the job bank system and the State job matching activities in the Employment and Training Report of the Secretary. It seems to us that the expansion of that nationwide job bank system is unwarranted at this time, given the current resource levels, and most importantly the low job placement levels through the interstate job bank. We do not believe it warrants looking at expansion of the interstate job bank system.

Our data suggest that less than 2 percent of all job placements of State employment service agencies comes through the interstate job bank.

We do not favor the increased Federal funding for additional development for full operational State job matching programs under this manner. Instead, we believe, as many of the States do, that the decentralized approach that allows the State agency and their policymakers to identify their State's local needs and circumstances, and then fashion the priorities of how that job-match system goes together should be placed in their hands. I know you as a former State legislator, can probably appreciate that.

In summary, we cannot support H.R. 4469 as it is outlined. The limited resources that we know are available we would like to see maximized to help workers who lose their jobs to make that transition to new jobs and occupations as quickly as possible. Again, we at the department, just as you, have a priority of trying to be visionary in looking at how best to deal with that.

We believe that we have a number of initiatives that are going to help us to sort this out, and to be able to work with the Congress for setting some new direction for the long-term unemployed—reemployment initiatives of the future. At this time we would be glad to try to answer any further questions.

Mr. PEASE. Thank you very much for your testimony. I appreciate the fact that you have stepped in at the last minute and have done an excellent job of delivering the testimony.

I would like to ask you a number of questions, if I might. Tell me more about this New Jersey pilot project. What do you expect to come of that? What do you hope to see as an end result?

Ms. PETERSON. The brief description that I gave to you indicates that the project is just beginning to be fully active. The primary aspect of it is that we believe that in looking at a base of information by the fifth week of the UI claimants' length of time under the UI Program, we can be able to sort out some indicators that would be highly positive indicators that this indeed is an individual who is going to be in the long-term UI claimant category, and to provide the best kinds of incentives for that person to be realistic about what is available in their local job market. What is the potential of that job they were once in still being available for them in the future can be sorted out. We can provide other interventions, if indeed all of the characteristics of that claimant seem to indicate that it perhaps is more realistic for them to look at job search assistance, or retaining or relocation for rapid reemployment.

Mr. PEASE. So I gather you do not have in mind, in this New Jersey project, providing additional weeks of compensation for those people who are likely to be unemployed for a long time?

Ms. PETERSON. Well, they will be under a UI Benefit Program along with the other interventions during the regular term of unemployment.

Mr. PEASE. You say that will be under a UI Program. Is that the State UI Program for 26 weeks, or do you contemplate providing compensation beyond 26 weeks for people in these categories?

Ms. GOLDING. They will be under the terms of the State law. Actually the costs of the demonstration will be paid for out of the unemployment insurance research and training appropriation, not out of State trust funds. They will not be on for a longer period than 26 weeks. What we are trying to test, using control groups as well as experimental groups, is the costs of establishing and identifying who is likely to be a long-term unemployment insurance recipient and who is not and then test the benefits as well as the costs of offering some additional services during that first 26 weeks.

One of the possibilities is a cash incentive payment for a more rapid return to work. It can represent an up to 10 weeks' incentive payment. What we would like to do is try to gather some facts on whether these interventions, whether our ability to identify them, is actually there, whether the interventions do make a difference in accelerating return to work, and then if so, at what cost and at what benefit, what impact was there on the duration of unemployment.

We are also trying to test bringing together in the dozen or so local offices in New Jersey all the resources that are available, trade adjustment assistance, JTPA and UI, getting those so that as far as the claimant is concerned, the connection is invisible, but as far as we are concerned, all the resources are working together to insure that the claimant gets the benefit of everything that is in place in the State.

Mr. PEASE. When you speak, of the possibility of a cash payment to encourage a person to return to the work force sooner, is that a

cash payment in addition to UI benefits, or would it be sort of an advance payment of UI benefits a person would otherwise get?

Ms. GOLDING. It would be in lieu of benefit payment that he would have gotten had he stayed on unemployment insurance for the full 26 weeks. But if he returns to work in, say the 12th week, he would get a cash incentive payment that would be all or most of what his remaining entitlement would be, assuming that he meets some additional conditions.

This is something that was tried without a control group in Illinois, and it had some promising results. What we have done in New Jersey is to adapt it a little bit, and try it with experimental and control groups. The results in Illinois indicated to the State and to us that the prospect of such a payment did accelerate a return to work, and the claimant did stay on the job.

It can also help in a situation where a claimant's former job paid substantially more, perhaps, or somewhat more than the job that he takes. It can be that where there is a major dislocation in a high-paying, highly skilled industry, where there is no prospect of that industry coming back, that adjustment to a different wage scale may become important to a claimant. Helping him assess what is realistically possible if he chooses to stay in that particular labor market area may be one of the things that led to a positive impact in Illinois.

Mr. PEASE. I see.

Ms. Peterson, what is the Department's position about what constitutes high levels of unemployment, low levels of unemployment, or medium levels of unemployment? Are there any guidelines that you use? We used to think back in the old Humprey-Hawkins days that anything above 3 percent was high unemployment. What is your feeling about that now?

Ms. PETERSON. I don't think we have any benchmark points that we speak of. I really believe that the bottom line on all of this issue is the important one for us to focus on and the one we want to focus on. That is that job shifts are going to continue to increase, and people moving from job to job during a work life is going to continue to increase significantly.

We need to provide for you as policymakers some specific data that show some kinds of interventions that we can do for workers to help focus them on how they become reemployed and gain meaningful work the fastest. That aspect isn't going to change in the job market in the years to come. We want to be pro-active with such programs as the demonstration project in New Jersey to test some things that are feasible to deal with the long-term unemployed.

Presently we are not dealing well with it in the short-term program that UI is meant to be, and the sooner that we can sort all of that out and come forward with some valid data, I think the better off we are all going to be, and particularly workers.

Mr. PEASE. I understand that currently about 35 percent of the people who are unemployed are actually receiving unemployment insurance. Do you consider that an acceptable situation? Normal? Abnormal?

Ms. PETERSON. You are referring to the variation, the gap between the insured unemployment rate and the total unemployment rate?

Mr. PEASE. No, the number of people who are unemployed is one thing. The number of people who are collecting unemployment benefits is another, which is about 35 percent of the total people unemployed. Does it concern you at all that the unemployment system is covering about a third of those who are actually unemployed?

Ms. PETERSON. Well, we are concerned about what causes that gap between the insured unemployment rate and the total unemployment rate. Recently at a hearing that Congressman Barney Frank had on that particular issue which we are talking about now, we outlined that the Department is undertaking a special study of that to try to determine more specifically what causes that variation between the two.

There are a number of different explanations that have been given as to why that gap exists. Shifts in the labor force that have caused substantial increase in new entrants and re-entrants into the work force that don't qualify for UI is perhaps one cause of that difference. The state emphasis on improving solvency in their trust funds has made the reduction of the maximum duration time in unemployment benefits and the reduction of the growth in the maximum weekly benefit amount. This has caused a difference between the IUR and the TUR. The back-to-back recessions in the early 1980's that prevented some workers from obtaining the amount of weeks necessary to qualify for their benefit programs a second time around and reduced the incidence of filing by individuals ineligible for benefits because of inadequate earnings.

So, you know, what is the cause of that lower percentage has a number of different factors weighted into it. We hope to have a study of this that will show us——

Mr. PEASE. I don't remember you mentioning the fact that the unemployment rate has been over 7 percent for the last 4 years. Do you think that might have been a factor too?

Ms. PETERSON. Possibly. There is just a lot of different opinions on what has caused that gap.

Mr. PEASE. Would you mind adding that to your list of things to look at?

Mr. VAN ERDEN. One of the main contributions, Mr. Pease, of the difference is the exhaustees from the program.

Mr. PEASE. That is what I was looking for.

Mr. VAN ERDEN. This number has dropped significantly in the last couple of years. As a result, the difference between the two, the gap between the two, has also dropped, but you are correct. In periods of high unemployment there are individuals who are——

Mr. PEASE. Is this a period of high unemployment?

Mr. VAN ERDEN. There are those who think that the new level of full employment is close to 6 percent, so if you base it on that factor, I would say it is probably not.

Mr. PEASE. Then the position of the Department is that this is not a period of high unemployment?

Mr. VAN ERDEN. I didn't say that was the position of the Department. I was making an observation.

Ms. GOLDING. I think one of the things that we are looking at is how much exhaustion of benefits and the inability to accrue wage benefits are a contributory factor to the reduced percentage of people who are able to claim benefits. This will be one of the factors that we will be looking at in a research study that we just commissioned.

We have looked at the contributory causes through a number of research projects in the past. We have not gotten the kind of information that we hoped to out of those. We don't know the degree to which each of the factors that Ms. Peterson just listed and the one that you and Jim just discussed actually contribute to the problem that you have put your finger on. It seems to us that knowing the degree to which each of those contributes would help us in crafting a solution. That was what we were looking toward when we started back again on this research task.

We expect to have results from this research proposal in 12 to 18 months.

Mr. PEASE. What about the changes in the law regarding extended benefits? Could that have been a contributing factor?

Ms. GOLDING. Absolutely.

Mr. PEASE. I didn't notice that in Ms. Peterson's list.

Ms. GOLDING. It is definitely one of the contributing factors.

Mr. PEASE. How about the expiration of FSC, could that have been a contributing factor?

Ms. GOLDING. Yes, and the changes made to State laws in response to solvency problems in the early 1980's when outlays far exceeded income, and trust fund debts built up. All those things have been contributory factors.

Mr. PEASE. Ms. Peterson mentioned changes in the State law because of their solvency problem, but she did not mention either the EB changes or the FSC expiration in a rather long list of factors you were examining. I am not sure that fills me with confidence about the likely outcome of this study if two important and obvious factors like that were left off the list.

Ms. GOLDING. It wasn't our intention, in our quick summary, to indicate that we are going to omit any causes. We want to be as inclusive as possible in the research we are doing.

Mr. PEASE. Now that I have brought them to your attention I am sure they will be added to the list. What is the attitude of the administration toward the Extended Benefits Program? Is that serving its purpose or not serving its purpose? Should it be continued or repealed? What is your attitude?

Ms. PETERSON. Sir, as I mentioned earlier, it is a short-term answer to a long-term problem. We would rather focus on trying to find some answers to the long-term problem of how we find better ways to intervene with people who have lost jobs and need to be assisted for reemployment, and get them back into a job quickly. The short answer is it is OK, but let's try to focus on finding some long-term solutions to this problem.

Mr. PEASE. The Extended Benefits Program, as you know, was supposed to provide additional weeks of benefits during high periods of unemployment. If a program is not serving its purpose, then perhaps Congress ought to dispense with it. Currently, as you know, the EB Program is triggered in only two jurisdictions. My

State of Ohio has an unemployment rate of 8.1 percent. It has not triggered on the EB. Would you consider 8.1 percent as not a high level of unemployment?

Ms. GOLDING. Sir, the EB triggers are expressed in terms of insured unemployment rate, and I believe the 8 percent that you are quoting must be the total unemployment——

Mr. PEASE. Sure.

Ms. GOLDING [continuing]. Most recently reported for Ohio.

Mr. VAN ERDEN. The insured unemployment rate now for trigger purposes in Ohio is 2.5 percent.

Mr. PEASE. What about Idaho, 4.9 percent IUR. Well, let me back away from that. It is true that the trigger percentages using IUR are very high, and that was of course a conscious change by this administration in the EB laws in 1981, but the number of people unemployed, the gross number of people, surely has to be taken into consideration.

In Kentucky the total unemployment rate is 10 percent, one out of every 10 persons is unemployed. Yet Kentucky is not on EB. West Virginia is 10.8 percent; Wyoming is 10.8 percent, and neither one of them is on, either. Mississippi is 10.9 percent. Is that high unemployment? Should they be on EB?

Ms. GOLDING. I think another way to ask the question—and I think you tackled this in your legislative proposal—is the issue of using the total unemployment rate as a trigger as an alternative to the insured unemployment rate. We do have some problems, as Ms. Peterson pointed out, in switching to the total unemployment rate. The IUR was included as the trigger measure for EB, because it is a direct count of the people who are claiming unemployment insurance, and who are a validatable real count proportion of the people who are covered.

The total unemployment rate is calculated quite differently, and is calculated in a statistically reliable way only for 11 States in the country. Many of the States that you mentioned, the unemployment rates for, are not among those 11 States.

Mr. PEASE. The very simple question is, is EB working or not? We have a national unemployment rate of 7.3 percent. We have unemployment rates in excess of 10 percent in a variety of States, and those States are not triggered on the EB. Is EB working? Is it worthwhile keeping it on the books at all?

Mr. VAN ERDEN. Mr. Pease, I think there is another important issue when you start talking about using the total unemployment rate as an indicator for extended benefits. If the insured rate is not high commensurate with the total unemployment rate, then triggering on under the total unemployment rate would not necessarily cover those individuals that you want to cover.

The insured unemployment rate tells you the people who would benefit from an Extended Benefit Program. The total rate does not necessarily do that. So even if you picked a trigger based on the total unemployment rate when it triggers on there may not be those individuals there who could take advantage of an Extended Benefits Program. It is really kind of an apples-and-oranges thing, the total unemployment rate.

Mr. PEASE. Does anybody have an answer to my question?

Is the EB Program working?

Ms. PETERSON. I guess I would say that if the EB Program prevents people from being realistic about what kinds of alternatives they must seek as far as action to get reemployed, and if it prevents us from delivering the kinds of services that help get them back into the labor market, and to be meaningfully employed, then it is not fulfilling totally what it should do in the long term. We certainly need the short-term income maintenance relationship, but the priority just must be to find ways to help people deal psychologically and meaningfully in their own stead in getting a new job and being reemployed.

Mr. PEASE. Thank you. Now we are getting to the nub of the matter. Your Department opposed the extension of FSC a couple of years ago on the grounds that paying more weeks of unemployment benefits would only discourage people from being forced back into the labor market, realizing they have to take lower paying jobs. I gather from what you just told me that that is your basic philosopy toward EB as well. Is that correct?

Ms. PETERSON. No, I wouldn't want you to read that into this. I want you to read into what we are saying that the Department, definitely, with a lot of priority at this point, wants to find ways in which we can help sustain people's income support and be able to deal logically and rationally with helping them to see a realistic viewpoint of what their job opportunity is in that local labor market, and assist them to be reemployed quickly.

Mr. PEASE. What would happen if the unemployment rate nationally went from 7.3 percent to 10.5 percent? What would be your attitude toward any change in the triggers for EB or toward a reinstitution of FSC?

Ms. PETERSON. Well, we presently have legislation regarding the Extended Benefits Program that exists now.

Ms. GOLDING. I think should the unemployment rate rise strikingly high, as the Congress and various administrations have done in the past, there would be discussions, and ultimately agreement, on either changes to the basic EB Program or the passage of a supplemental additional program to augment the extended benefits program. That happened in the early and mid 1970's with FSB and it happened again in the early 1980's with FSC, after the passage of OBRA 81, which made the trigger changes.

Mr. PEASE. Do you happen to recall what the costs of the FSC Program was?

Mr. VAN ERDEN. It was about $9.7 billion.

Mr. PEASE. What was it in any given fiscal year of 1982, 1983, or 1984?

Mr. VAN ERDEN. Probably four and a half. The bulk of it was paid out in 1982-83.

Mr. PEASE. According to your testimony, Ms. Peterson, you calculate that the cost of the bill that I am proposing, if we were to go into another period of high unemployment as we had in 1982 and 1983, would be $1.8 billion. Would you rather have my program at a cost of $1.8 billion or a new FSC at a cost of $3 or $4 billion?

Ms. PETERSON. To clarify that, that was an add-on that would be added by H.R. 4469.

Mr. PEASE. Sure. Well, FSC is an add-on too. If we just reinstituted FSC as it was in 1982, and put it on top, then the cost would be $3 or $4 billion right?

Mr. VAN ERDEN. Yes; FSC had not only more duration than your program proposes but also had a series of reach-backs to cover people who had exhausted prior rights, so they are different kinds of bills. It is clear your bill would be cheaper than an add-on similar to FSC under current law. We will grant you that.

Mr. PEASE. I have lots more questions that I could ask, but we have other witnesses. I am told we need to be out of this room by 12:45, so I will defer to Mr. Frenzel. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

Ladies and gentlemen, I thank you for coming here and providing testimony. I am sorry I arrived late.

Can you repeat what the cost is over the next 2 years of this bill is to the Federal Government, based on what we are now using as economic assumptions?

Ms. GOLDING. The additional cost under the current economic assumptions of H.R. 4469 would be $80 million in 1987 and $360 million in 1988.

Mr. FRENZEL. I assume that is only the cost to the Federal Government?

Ms. GOLDING. That is both the State and Federal share.

Mr. FRENZEL. Can you split out the Federal and State share for me?

Ms. GOLDING. We will have to get that.

Mr. FRENZEL. I think the committee would like to have that.

[The following was subsequently received:]

EB COST DISTRIBUTION UNDER ADMINISTRATION ASSUMPTIONS

[In millions of dollars]

	Total benefits	Federal share		State share
		EUCA	ESAA	
Current law:				
Fiscal year 1987.4	8	4	0	4
Fiscal year 1988	30	15	0	15
H.R. 4469:				
Fiscal year 1987.4	93	37	21	35
Fiscal year 1988	393	138	119	136

Mr. FRENZEL. Second, when you stated this cost of $80 and $360 million, I assume that means that there is a further assumption that all of the States change their laws so that they could participate?

Ms. GOLDING. We assumed that they would make those changes by July 1, 1987.

Mr. FRENZEL. Is that a reasonable assumption in your judgment?

Ms. GOLDING. Probably not.

Mr. FRENZEL. In most States it has been my understanding that people have been looking to reduce those costs, feeling that they are job taxes and they would like to get their unemployment taxes down a bit. Is that your experience or not?

Ms. GOLDING. I think certainly the charges that were made via TEFRA and the Social Security Amendments of 1983 actually pressed States to make changes on both sides, tax and benefits, not to make the changes on one side or the other. It is true that States have done a substantial amount to improve their solvency, and that that has had an impact on their financial situation as well as on the eligibility criteria for applying for UI benefits.

Mr. FRENZEL. It does seem to me that this bill escalates State costs beyond average or the normal 26 weeks up to, what, 39 additional weeks?

Ms. GOLDING. Thirty additional, I believe, up to a total of 56 weeks.

Mr. PEASE. If the unemployment rate is 12 percent.

Ms. GOLDING. At the highest.

Mr. FRENZEL. Maximum, and obviously States who accept this, change their laws to conform, are going to be accepting a healthy bit of expense.

Now let's go on. You have another assumption that takes it at 1982 and 1983 unemployment rates. The total amount of money isn't important, I think, because at least in 1987 and 1988 they are hopeful that we won't reach that rate. But what I am interested in is at that point then you have a different division of the trust fund and general revenue expenditures. If you get an 8 IUR and above in any given State, the Feds are paying 90 percent of the cost, as this thing is presented to me here. But of the Federal share, 100 percent is coming from general revenue and zero percent from the Federal trust fund. Is that your understanding of the bill?

Ms. GOLDING. Well, the bill says that these new charges would be charged to the Employment Security Administration account. It does not go on to say whether the ESA account, which would go into deficit under a recession scenario, would or should have any changes to its current provisions. Under the current provisions, either a general revenue advance would have to be made to the account or we would have to come back to you for a tax increase to repay.

Mr. FRENZEL. I think what we need to know is what are the possibilities with the enactment of this particular bill, particularly with respect to the rates of the unemployment taxes levied on employers in each of the States, and particularly with respect to those who are still stuck with loans and who would, under this program, go back into a loan situation in a bad case of unemployment, and I think we are talking about very large increases in costs of employment.

You are talking about—again I am getting back to my point, which is the job tax which employers and State departments are getting a little nervous about. Can you provide some of that information for us so we will know, for instance, what each State might pay under this law for the current assumptions, which are pretty rosy, at least in my judgment, and how much we would pay under a 1982–83 scenario?

Ms. PETERSON. Yes, Mr. Frenzel.

Mr. FRENZEL. And what the tax would be in each of the States.

Ms. GOLDING. We may not be able to tell you what the taxes would actually be in each State. All you can do is extrapolate cur-

rent law in those States. You can't anticipate what they are going to do. You could guess but I don't think we are asking for guesses.

We can tell you what the State's share would be, and if it followed the same pattern as 1982–83 what the cost to each of the States would be.

[The following was subsequently received:]

STATE EB COSTS UNDER H.R. 4469

	Administration assumptions	1982–83 scenario
1988 State cost (percent taxable wages):		
Average	0.02	0.2
Maximum [1]	.6	.6
1986 average tax rate	2.7	2.7
Number of States paying EB	9	44

[1] Because of the sliding cost distribution scale, the maximum cost would occur at the 15-, 20-, and 25-week durations.

Mr. FRENZEL. To qualify for 56 weeks of unemployment, in most States how long does the person have to be employed, assuming this is a law rather than the bill?

Ms. GOLDING. The current EB requirement is that a person have 20 weeks of work or more.

Mr. FRENZEL. But what does the bill call for? Does it change that at all?

Mr. VAN ERDEN. The bill doesn't address the 20 weeks of work. I assume that would remain law, so the 20 weeks of work requirement would be potentially a minimum amount that someone would have to work.

Mr. FRENZEL. So you could work 20 weeks and potentially receive 50 weeks?

Mr. VAN ERDEN. Fifty-six weeks in those eight States with a basic uniform duration period of 26 weeks and in all other States, considerably more than 20 weeks or the equivalent in wages.

Mr. FRENZEL. Fifty-six weeks of payments. And the payments would be dependent on the State scale?

Mr. VAN ERDEN. State formula.

Mr. FRENZEL. So it would vary by State. You tell me now that exhaustion rates are 37.1 percent in the third quarter of 1985. Is that the most recent figure you have?

Ms. GOLDING. 31.7.

Mr. FRENZEL. Is that the most recent figure?

Mr. VAN ERDEN. That is for April 1986, a 12-month period ending in April 1986, it is 31.

Mr. FRENZEL. Which is it? Is it the third quarter of 1985 or April 1986?

Mr. VAN ERDEN. April 1986 is the latest data that we have available right now.

Mr. FRENZEL. And that is 31 percent more or less?

Mr. VAN ERDEN. Yes, sir.

Mr. FRENZEL. How much was the exhaustion rate 1 year ago and 4 years ago, as a guess?

Mr. VAN ERDEN. Well, I can give you the exact rate in July 1983. It was 40.1 percent, and it has been falling since that time. A year ago it was roughly 32 to 33 percent.

Mr. FRENZEL. Where was it when you get back to where it was really pretty low?

Mr. VAN ERDEN. Traditionally, the exhaustion rate has been in the 25- to 30-percent range. The lowest period——

Mr. FRENZEL. So while it is low compared to a couple years ago, it is high historically?

Mr. VAN ERDEN. No, I would say it is a little above average historically, yes, sir.

Mr. FRENZEL. Can you give us 20 years of that for the committee?

Mr. VAN ERDEN. Yes, sir.

[The following was subsequently received:]

REGULAR STATE UI EXHAUSTIONS AS PERCENT OF FIRST PAYMENTS

1960—26.1; 1961—30.4; 1962—27.4; 1963—25.3; 1964—23.8; 1965—21.5; 1966—18.0; 1967—19.3; 1968—19.6; 1969—19.8; 1970—24.4; 1971—30.5; 1972—28.9; 1973—27.6; 1974—31.2; 1975—37.8; 1976—37.8; 1977—33.4; 1978—26.8; 1979—26.7; 1980—33.2; 1981—32.4; 1982—38.5; 1983—38.4; 1984—33.5; 1985—31.1.

Mr. FRENZEL. Or whatever is the convenient form that you have. When does the EB Program expire?

Ms. GOLDING. It is permanent.

Mr. FRENZEL. It is a permanent program?

Ms. GOLDING. Yes.

Mr. FRENZEL. And we now have two EB States. Can you tell me which they are?

Ms. GOLDING. Louisiana and Alaska.

Mr. FRENZEL. Thank you very much, Mr. Chairman.

Mr. PEASE. Thank you, Mr. Frenzel.

Before I let you go, Ms. Peterson, is your shop responsible for the administration of the Trade Adjustment Assistance Program?

Ms. PETERSON. Yes; it is.

Mr. PEASE. Let me, since I have you here, just make a public plea that the Department do what it can to administer that program efficiently. As you know, I have followed trade adjustment assistance with some interest over the last several years, and it has been my conviction that many of the shortcomings of the program which have been amply pointed out on the House floor by my colleague from Minnesota are a result of maladministration, I would say, by the Department of Labor.

I have charted it through States like my own State of Ohio, which simply couldn't get any answers out of the Department of Labor about when money was going to be available, what the regulations were, and so on and so forth, and it occurs to me that you would have a common interest with the Congress in administering efficiently whatever happens to be the law of the land. I spoke with Secretary Brock a year ago, and said that I had considerable faith that things would improve under his administration. I still hope that that will be the case.

Since you are directly involved with the administration, I would ask you to pay some real attention to what is going on in terms of the instructions that go to the States, the problems they are en-

countering, and whether you can do anything about making sure that they are aware of what they have to do and not do.

Ms. PETERSON. Mr. Pease, I appreciate your comments, and you are right on target. We have a big concern on that, and in the now little over 6 months that I have been there we are taking a look at the length of time of the certifying process and the elements that are in the reauthorization bill on trade adjustment. We do hope to be able to very soon make some changes in that to make that program more efficient and, most importantly, more closely related to the title III dislocated worker element of JTPA, to make it effective in the States. So we are very cognizant of it. We are working on it. We hope to be back to you very soon to report some positive things.

Mr. PEASE. Good. I appreciate that. As you know, the program has been reauthorized now for about 2 months, and that news has barely filtered down to the local employment services offices in our State, so whatever you can do will be appreciated. Thank you very much.

Our next witnesses will be from the American Federation of Labor and Congress of Industrial Organizations, AFL-CIO, Calvin Johnson, legislative representative, accompanied by Larry Smedley, associate director, Department of Occupational Safety, Health and Social Security; and also the Full Employment Action Council, Edward D. Hollander, economic consultant. Mr. Johnson, we will start with you.

STATEMENT OF CALVIN P. JOHNSON, LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY LAWRENCE SMEDLEY, ASSOCIATE DIRECTOR, DEPARTMENT OF OCCUPATIONAL SAFETY, HEALTH AND SOCIAL SECURITY

Mr. JOHNSON. With me today is Mr. Lawrence Smedley, associate director, Department of Occupational Safety, Health and Social Security.

The AFL-CIO wishes to commend you, Mr. Chairman and the members of your subcommittee, for directing the attention of the Congress to the issue of what must be done to help the over 1 million people in this country who have been out of work for over 6 months and who are currently ineligible under existing law for extended benefits.

Mr. Chairman, there is a broad assumption prevalent throughout the country that the jobless are protected by our Nation's unemployment insurance system. Tragically, not only is this conception false and mistaken, but most people are unaware that the overwhelming majority of the unemployed are not receiving benefits from the UI system. We are well into the third straight year where just one-third or less of the jobless are judged eligible and receive unemployment compensation benefits.

In May, while the total unemployment rate jumped two-tenths of a percentage point to 7.3 percent—over 8½ million men and women officially counted as out of work—the percentage of the jobless receiving unemployment compensation actually dropped from 35 percent to 31.6 percent. This means that over 5½ million of the jobless got nothing at all from this system. Last October only 26.6

percent of the unemployed received benefits under all UI programs—an all-time low. In contrast, 11 years ago 76 percent of the jobless were receiving benefits.

Even worse, Mr. Chairman, than the sad story I have just described is this Nation's treatment of the long-term jobless. These are the people who have been out of work and unable to find jobs for a half year or longer and are in the most desperate need of assistance. Our Federal/State system, with its permanent Extended Benefit Program, has failed, is failing, and unless greatly transformed will continue to fail to offer protection to the long-term unemployed. This situation was made worse last year when the Congress and the administration, despite the efforts of this subcommittee, allowed the Federal Supplemental Compensation Program to expire.

The impact of the past two recessions and the continued high rate of unemployment have brought devastation to millions of American families. It is vital and important that this subcommittee and every Member of Congress consider not just the overall statistics representing the failure of the UI system but the broken dreams, lost hopes and shattered dignity of the millions upon millions whose lives have been battered and needs ignored by uncompensated unemployment—a situation that is the direct result of the policies of this administration.

As the AFL–CIO testified before this subcommittee last year on the eve of the expiration of the Federal Supplemental Compensation Program, if it is the policy of the Government, and if it is our intention, as people who care, to provide compensation to our fellow citizens who suffer from long-term unemployment, then we are failing in our commitment, in our obligations, and in our responsibilities.

The AFL–CIO once again calls upon the Congress to reform the Nation's unemployment insurance system. The time to act is now and not when the economy is in the midst of the next recession. The single most important aspect of the current crisis in the Nation's UI system is the underfunding of the program. Inadequate revenues dictate the establishment by policymakers of inadequate benefit levels. But most distressing to the millions of jobless in our society is the inadequate financing of the system, together with two recent recessions and continuing high levels of unemployment, that has resulted in denial of benefits to 7 out of every 10 of the unemployed.

Mr. Chairman, the failure of Congress and the administration to adopt the recommendation of the National Commission on Unemployment Compensation to set the Federal taxable wage base at 65 percent of the average annual wage has resulted in punishment of those in our society who have already been harmed by the lack of work.

The AFL–CIO is pleased that Congressman Pease and his distinguished colleagues recognize the need to correct some of the inequities in the current system. H.R. 4469 would improve, to some degree, protection extended to the long-term jobless. In particular, this bill would replace the inadequate coverage and duration of the present Extended Benefits Program with a new system providing a tiered schedule of benefits, based on a State's unemployment level,

of up to 30 weeks of additional payments to the long-term jobless. Under this proposal, it would be possible for at least some of the long-term unemployed to receive up to 56 weeks of income support. The maximum, however, would be available only in those States with a total unemployment rate of 13 percent or more or an insured unemployment rate of at least 8 percent providing that the IUR equaled or exceeded 105 percent of the average of such rates for the corresponding 13-week period in each of the preceding 6 calendar years. Even in the depths of the 1982–83 recession, few States would have qualified for extended benefits under the triggers proposed by this bill even though there were millions of long-term jobless.

The bill does not provide the reform that is necessary to overcome the problems inherent in our extended benefit program—namely, the failure to provide enough revenue to improve coverage of all the jobless and, in particular, the long-term unemployed. H.R. 4469, while similar to previous proposals to reform the EB Program, is far too restrictive in its trigger mechanism to help the majority of people facing long spells of unemployment. The provision in the bill to permit the use of total unemployment rates rather than just the insured unemployment rate is a much needed step in the right direction. Unfortunately, the levels of unemployment required in order to trigger each tier of benefits are too high and are too restrictive to afford the protection that is needed. We suggest that the levels of total unemployment required for each tier of benefits be lowered by at least 1 percent.

If insured unemployment rates are to be used as a trigger, the percentage of the average rate for the same 13-week period for the previous 6 calendar years should be eliminated. Business cycles change with sufficient frequency that the benchmark period would be bound to include recession years with very high unemployment. Additionally, the bill should specifically require that recipients of unemployment compensation benefits under all programs be included in the calculation of the insured unemployment rate.

These suggested changes, limited in nature and far short of what would be required to correct the terrible lack of coverage for the majority of the jobless, would extend income protection under the EB Program to many in our society who are the most needy and who are uncompensated under the current program.

The costs of the program the bill would authorize would be shared by States and the Federal Government. The Federal share would range from 50 to 90 percent, depending upon the unemployment rate and the tier of benefits in effect at the State level. We believe that this is an equitable approach which would reduce the financial burden on States in which unemployment is high and of a long duration—thus enabling States to improve rather than cut back benefits for unemployed workers.

The bill should be modified to include an immediate increase in the taxable wage base for the Federal unemployment tax and should establish an index that would meet the recommendation of the National Commission on Unemployment Compensation by a specific date—for example 1990.

The bill proposes two demonstration projects which the AFL-CIO supports. Providing extended benefits to certain areas within

States that are suffering high unemployment of long duration would focus limited resources on those with the greatest need. The bill should provide the necessary resources to either the Bureau of Labor Statistics or to the State employment security agencies to gather the appropriate data for substate determinations. The demonstration program for the promotion of training schemes for those receiving unemployment compensation benefits would hopefully lead to improvements in the process of approving such training programs.

The AFL–CIO also supports the thrust of targeting some Federal procurement practices to so-called labor surplus areas.

Mr. Chairman, the AFL–CIO is aware of the difficulties facing this subcommittee and the Congress on the issue of reform in the Nation's Unemployment Compensation Program. We know that improving coverage for the long-term jobless will require additional resources and believe that an increase in the Federal taxable wage base addresses that concern. In the final analysis our actions should be guided by what must be done to fully respond to the plight of the long-term unemployed.

Mr. PEASE. Thank you very much, Mr. Johnson.

Are we going to have comments from Mr. Smedley?

Mr. JOHNSON. No, Mr. Chairman.

Mr. PEASE. Fine. Mr. Hollander, why don't you proceed.

STATEMENT OF EDWARD D. HOLLANDER, ECONOMIC CONSULTANT, FULL EMPLOYMENT ACTION COUNCIL

Mr. HOLLANDER. Thank you, Mr. Chairman. My name is Edward D. Hollander. I am an economist with many years of experience in and out of the Government, including experience in the field of employment security. I might say parenthetically that includes 18 years in the Department of Labor both in the Bureau of Employment Security and in the Bureau of Labor Statistics. I am appearing here today on behalf of the Full Employment Action Council, a coalition of 85 religious, public interest, and trade union organizations. We appreciate the opportunity to appear in support of the principles of H.R. 4469 as a very small step to reverse the gutting of the unemployment insurance system that has been going on since 1981. By itself, H.R. 4469, cannot undo more than a small part of the damage of the past 5 years, but its passage would be a signal that repair might be in the offing.

What has happened to the system is neither obscure nor accidental. Systematic and prolonged underfunding has provided the occasion and the excuse for cutbacks in benefits, eligibility, and duration, to the point where less than one-third of all unemployed, and only 1 percent of those unemployed more than 26 weeks, can claim benefits. As recently as 1980, more than 40 percent of unemployed were insured, and as recently as 1983, about 37 percent of the long-term unemployed were receiving benefits. Now, as the result of changes in eligibility and funding, long-term unemployed have been for practical purposes, excluded from receiving benefits.

This was not difficult to accomplish by those intent on budget cutting at the expense of the unemployed. The mechanisms by which the Federal-State extended benefits were triggered were ren-

dered substantially inoperative by raising the unemployment level required to trigger the extended benefits, by shifting from a national to a State-by-State trigger, and by changing the calculation to make it more difficult for States to qualify. It worked. By now, only a few thousand of the long-term unemployed are eligible.

I might say parenthetically, if I may, Mr. Chairman, that in light of the questioning that has gone on this morning and the attention to the triggering mechanism, we have to remember that the trigger has two functions: One, of course, is the function of gatekeeping to determine who is going to receive extended benefits and who is not, presumably on the basis of their needs as long-term unemployed.

But equally important, the trigger rate is the measure of the difficulty of finding reemployment in the labor market currently, and so by raising the trigger over and over again, we in effect make certain assumptions about the ease of reemployment that are not justified by the present market.

As part of this catch-22 maneuver, the calculation of the trigger ratios—insured unemployment as a percentage of employment covered by unemployment insurance—was changed to exclude from the percentage these beneficiaries who had exhausted their State benefits and were receiving extended Federal-State benefits. This, of course, had the effect of distorting downward the insured unemployment rate by reducing the numerator of the fraction. It has the effect of making it even more difficult for States to qualify.

One of the built-in shortcomings of the system has been its failure to respond to the market-induced increases in unemployment, both those generated by the business cycle and those arising from the structural changes the U.S. economy is undergoing. This is most clearly seen in the shrinking protection available to the unemployed.

For example, in the recession of 1975 about half of the unemployed were insured—at best very incomplete protection; but in the much deeper recession of 1982, the figure had fallen below 40 percent. Though the unemployed were one-third more numerous in 1982 than in 1975, the number insured was only 2 percent greater. The shrinkage of coverage was particularly marked among those unemployed more than 26 weeks: above 50 percent of these were beneficiaries in 1976 but less than 35 percent in 1982. Overall, the ratio of insured unemployment to total unemployment, which traditionally averaged between 40 to 50 percent, averaged 41 percent in the 1970's, and in the last 3 years had fallen to 30.7 percent.[1]

Though this decline has been investigated by competent independent analysts, it has not been fully explained. But insofar as it has affected the long-term unemployed—these out of work more than 26 weeks—the causes are unmistakably clear: the upward ratcheting of the trigger that releases Federal-State extended benefits, coupled with the expiration of the Federal supplemental compensation in 1985. As late as March 1985, absent one-fourth of the long-term unemployed were receiving some benefits. Although that is niggardly treatment of those unfortunates, who are already bearing a disproportionate share of the unemployment burden, it ap-

[1] Wayne Vroman, statement before the Employment and Housing Subcommittee of the Government Operations Committee of the House of Representatives, May 22, 1986; p. 2.

pears positively generous by comparison with the virtually total absence of benefits since the Congress legislated extended benefits and supplemental compensation out of existence.

That is why we find ourselves in the anomalous position of coming before you to endorse the bill that, even if it were enacted, would represent such a very small increment of progress. Undoubtedly, under any foreseeable circumstances there would be persons who could qualify for benefits, even under the limited conditions and to the limited extent, prescribed, who do not qualify under present law.

May I add at that point that since an issue has been made of the feasibility of substate estimates of unemployment, I can offer an opinion as one who for many years was concerned with the development and publication of estimates of employment and unemployment in the Department of Labor, that many more difficult technical problems than this have been solved by the very competent statisticians who are engaged in making unemployment estimates, and I would be more impressed with the Department's position about the difficulty and cost of doing this if they were in favor of doing it.

I am sure they can find reasons for not doing it, since they don't want to do it anyhow, but the possibilities of sampling and the possibilities of estimating are such that at least a very determined effort and some experimentation should be made.

Remember that we are talking here about a program of Federal-State extended benefits that even in the recession years of 1975–76 did not exceed fifteen one-hundredths of 1 percent of GNP and in the Reagan years never exceeded seven one-hundredths of 1 percent and currently is zero.[2]

I think we should just need to keep in perspective the relative size of the amounts we are talking about, and when we talk about assessing costs and benefits, we have to be quite clear that the costs are very general, in the sense that they are spread over the economy, and the benefits are very targeted insofar as they are directed to people who by definition are greatly in need.

As I am sure you know very well, the terrible deficiencies of the Unemployment Insurance Program stem from gross, deliberate, and permanent underfunding, due to the ridiculously low $7,000 cap on wages subject to tax, roughly one-third of wages in covered employment. Until that deficiency is remedied—or alternatively, general revenues are used to raise benefits—so that adequate amounts and duration of benefits can be funded, no amount of tinkering or gimmickry will rescue the system from its disgraceful deficiencies. Indeed, in no other way can the system be reformed without adding to the Federal deficit or deficits in the State reserves.

Mr. PEASE. Thank you, Mr. Hollander. We appreciate that testimony.

Let me ask you some questions first, and then I will turn to Mr. Johnson. I was impressed with your testimony. I think you have given us some useful information, particularly in terms of perspec-

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[2] Wayne Vroman, op. cit., table 2.

tive on the cost of the program. I think we are really dealing with two factors here: One is the amount of revenue you would need to produce adequate protection for the unemployed. The other is the mechanics of getting it to the unemployed.

I guess I would like to ask you about the adequacy of the revenue, and just look at the mechanics, I assume from your testimony that you would find this bill inadequate chiefly because the triggering percentages are fairly high, and therefore a number of people would not be qualified.

If you leave aside the question of the triggering percentages—assume for the sake of argument that they could be lower so more people could qualify—do you have any suggestions about the mechanics that are outlined in this bill? In other words, if money is not a problem, and if the triggering percentages could be altered to cover more workers, do you have any suggestions as to the other aspects of the bill in terms of mechanics of delivery?

Mr. HOLLANDER. I assume that under the term "triggering mechanisms" you are including the references to the earlier years, and so on. In that event my answer to your question is no, I do not have any difficulty, and in fact I think the idea of making the total unemployment rate an alternative to the insured unemployment rate is a constructive step.

My preference would be to use the total unemployment rate, and to find ways to measure it, because as I said, that is the real gauge of how hard it is going to be for these people to become reemployed. It is very nice to talk about training exercises and help with job search and so on, but if you are in Youngstown and you are an unemployed steelworker and you are 40 years old or more, none of this looks very promising.

Mr. PEASE. Let me interrupt and go to Mr. Johnson and ask him the same question. Mr. Johnson, looking through your testimony, I don't find any criticisms of H.R. 4469, aside from the fact that the triggering levels are fairly high, and thus the measure would not cover a good many people. Again assuming that the triggering percentages could be changed, do you have any suggestions for improvement of the mechanics of delivery as outlined in this bill?

Mr. SMEDLEY. Generally, Mr. Chairman, I agree with Mr. Hollander. I might take out the 105 percent and just use the total unemployment rate. But aside from that, within the constraints of your question, you understand this is a very limited bill, as Mr. Hollander pointed out. The answer is generally we would be satisfied with the bill, with a few minor adjustments of the kind just mentioned.

Mr. PEASE. Thank you. Mr. Hollander, I appreciated your comments on substate triggers. I think it is important to try to figure out some way to identify pockets of unemployment in a State and deal with those pockets without triggering eligibility for everybody in an entire State or denying eligibility to everyone in a State, and I think perhaps the view of the administration about the difficulty, statistically, of coming up with information may be colored by their basic attitude toward substate triggers.

For example, I note in the testimony of Ms. Peterson that the Department is working on pilot project in New Jersey and propose to do it in two other States to try to work out the idea that they

favor, which is to try to get people to accept different jobs in order to get back to work. So I have some confidence and faith that if we were to thrust this responsibility on the Department of Labor, that they could find a way to do it.

Mr. FRENZEL. Would the gentleman yield?

Mr. PEASE. Surely.

Mr. FRENZEL. You know this subcommittee has been trying ever since it was created to get some kind of substate triggers, and we have been resisted by three administrations, each of which has listened passionately to us and tut-tutted us aside. I think that we ought to make at least a final appeal, and then try to establish if we can't get help from the administration, our own version of how a substate trigger would operate. It is quite obvious with regions as large as we are discussing here that there are enormous differences between some of these areas. I hope the administration will take seriously at least my plea to move forward in this regard.

Mr. PEASE. Thank you. I appreciate that from you, Mr. Frenzel.

Mr. Johnson, I guess I would like to raise with you—and perhaps Mr. Hollander would like to comment too—a very general question. You say in your testimony—let me see if I can find it—yes. You say,

> If it is the policy of the Government, and if it is our intention as people who care to provide compensation to our fellow citizens who suffer from long-term unemployment, then we are failing in our commitment.

Do you think it is the policy of our Government to provide compensation for long-term unemployed people?

Mr. JOHNSON. I think, Mr. Pease, that it is the policy of the Government to provide for the general welfare. That within that responsibility, the condition of long-term unemployment, when it is not the direct responsibility of the individual, should at least be the responsibility of the Government to try to analyze the causes of it, and at least alleviate it on a temporary basis, until individuals are able to take care of it themselves.

Mr. PEASE. What you have just told me is what you think the policy ought to be. I am just trying to establish whether you think the Government, as represented by the current administration, does have a commitment for long-term unemployed workers.

Mr. JOHNSON. The Government as represented by the current administration? I don't think so, Mr. Chairman. That is my opinion.

Mr. PEASE. How about the Federal Government as represented by the previous administration, the Carter administration, talking about long-term unemployed?

Mr. JOHNSON. Thinking back to the Carter administration, I believe it had more of a commitment than the current administration does. But I wasn't, as an individual, totally satisfied with the commitment as expressed by that administration either.

Mr. PEASE. What I am trying to get at is this: The unemployment compensation system, as I understand it, was set up to deal with relatively short-term unemployment, which back in the good old days was all we ever had. We didn't have this phenomenon of chronic long-term unemployment. Now we do have it. It appears that we are going to have it over the next several years. The question is, can the current unemployment compensation system, set up

essentially to deal with short-term unemployment, be used to deal with long-term unemployment, or do we need to set up a separate system, perhaps funded separately and differently, to deal with the long-term chronic unemployed?

Mr. JOHNSON. I believe you are correct, that it was not intended initially to solve the problems of long-term unemployment. The whole structure of trade, markets and employment in this country has changed drastically since the program was put in place. I think that the current Unemployment Compensation Program could be a step, one part of solving the long-term problem, but there are other things that need to be done, with reeducation, retraining, retooling, bringing new jobs and improving our general trade practices and markets on a worldwide basis.

Mr. PEASE. Mr. Hollander, would you have any thoughts on that question?

Mr. HOLLANDER. Yes. When you talk about the good old days, I think I have to ask you which good old days you are talking about.

Mr. PEASE. After World War II.

Mr. HOLLANDER. I see. Because when this program was originally enacted, which I remember very well, if you will forgive me, they were not the good old days, and long-term unemployment was the rule rather than the exception, and at that time it was indeed believed that this program was designed mainly for short-term unemployment, and that other programs were available, which at that time they were, to pick up the long-term unemployment, and provide income support.

Now, we did go through a euphoric stage after World War II, in which the system seemed superficially to be pretty adequate, and then we ran into the adjustment storms of the 1970's and the 1980's, and I would now say that, conceptually, I think the program should be for not the shortest but not prolonged chronic unemployment, and whether that is 26 or 39 or 52 weeks we can set aside for the moment. But then if you say that, you then assume that the Government, to discharge the responsibility that Mr. Johnson is talking about, has alternative programs of income support and labor market support, for the long-term chronic unemployed.

We have heard a great deal about retraining and redirecting and intensive employment services, and so on and so on, but the fact is that the administration doesn't want to fund those either.

I think I would have to say that the program is being guided by its fiscal tail. For the last couple of decades particularly, it has been the prisoner of the financing mechanisms, not only including the too low cap on the taxable wages, but the whole mechanism by which the States got into debt and then were induced to get out of debt, and by means of that were induced to reduce benefits. The fiscal tail is wagging this dog, and it is very difficult to think of solutions that don't involve correcting that distortion.

Mr. PEASE. I wanted to ask you both that question, because I think as we look at so-called reform of the unemployment compensation system, one of the first questions we need to settle is whether it is short term or long term. If it is short term, that dictates a certain set of decisions, and if it is long term that is another. I think we would probably all agree that the unemployment compensation system we have now should not be addressing long-term

chronic unemployment. But apropos of what Mr. Hollander said, in the face of the unlikelihood that there will be any other program for the long-term unemployed, a number of people are tempted to try to get the current system to deal not only with short-term unemployment but also with what we might call medium term, and that creates certain complications for this system.

I agree with you there is not much chance that we will get any other programs for the long-term unemployed, although hope springs eternal.

Mr. HOLLANDER. But even if we did, I would see no objection to using this unemployment insurance mechanism as a transition financing device while people were eased into the long-term program.

Mr. PEASE. Sure, I think that would, by definition, be a function of short-term coverage. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman. Both of the witnesses indicated that they thought the wage base should be increased, but this bill doesn't necessarily do that. In fact, it does not touch it at all. This bill also gets into general revenue, assuming bad times. Do the witnesses think the use of general revenue is a good idea in this kind of a bill, or would you rely wholly on wage base increases?

Mr. SMEDLEY. In this bill the result would be in time of heavy recession you would use general revenue. We wouldn't object to it in this bill. I think in the longer run we advocate raising the wage base, because it is absolutely essential, because the State programs are very much underfinanced, and any time you run into a recession, they are then in very bad straits. They are incapable of really doing a good job of taking care of the unemployed, and so until you strengthen the financing of the program, you will never have a really satisfactory unemployment compensation program. If you remember right when the law was first passed, the unemployment compensation wage base was consistent with the Social Security, the FICA wage base. The FICA wage base is now $42,000, the UC rate $7,000, so it shows how far we have fallen behind.

Mr. FRENZEL. Thank you. Mr. Hollander.

Mr. HOLLANDER. I think, ideally, as long as unemployment was below normal or normal or a little above normal, it is quite appropriate to have a financing base in the State systems to finance these benefits. When it gets to the point such as you posited a little while ago of 8 percent insured unemployment, which means something like 13 or 14 percent overall unemployment, then I think it puts too great a strain on the employment tax, and the risk of distorting markets by having some States have high taxes and other States not so high, so that you imbalance the competitive situation between Minnesota and Wisconsin, and encourage distortions in employment decisions and business decisions. At that point I think it becomes a national problem and it should be financed partly out of general revenues.

Mr. FRENZEL. Thank you.

This established, H.R. 4669 sets up a total employment rate as an alternate trigger. Why would we use that as a trigger when we aren't paying benefits to anybody other than insured beneficiaries?

Mr. SMEDLEY. There would be some people that would be insured in the program and others that wouldn't, but the main problem with the long-term unemployed is the fact that none of the State programs have triggered, so there is no question if you were to get the programs to trigger in times of high unemployment it would help a lot of long-term unemployed people.

Mr. FRENZEL. But if you wanted to do that, you could lower the insured trigger, couldn't you?

Mr. SMEDLEY. Yes; that is one way of doing it.

Mr. FRENZEL. For the same thing?

Mr. SMEDLEY. Yes.

Mr. HOLLANDER. It is not necessarily the same thing. It depends on whether there are differential unemployment rates between the insured and uninsured population, and I would like to reiterate that one of the principal functions of the trigger rate is to indicate the ease or difficulty of finding alternative employment or reemployment in a given area, and this depends on the total labor market and the total unemployment.

Mr. FRENZEL. And that you would see as being a reason to substantiate the use of an alternative IUR trigger?

Mr. HOLLANDER. Yes.

Mr. FRENZEL. Thank you very much, Mr. Chairman.

Mr. PEASE. Let me ask one other question of Mr. Hollander. Mr. Hollander, any time anybody suggests that there might be an increase in the wage base, employers are concerned about the front loading question—the problem that employers have cited that the unemployment taxes have to be paid from the first dollar of wages. Do you have any idea about how their concerns might be addressed?

Mr. HOLLANDER. I don't really understand the concern, Mr. Chairman. You mean the first dollar of an individual's wage? I don't understand why that is a matter of concern there more than in FICA, which is a much higher tax.

Mr. PEASE. Let me ask an associated question. The current unemployment tax is essentially a regressive tax. It applies only to the first $7,000 of wages. Would it make any sense at all, even if we are going to bring in exactly the same amount of revenue, to have a much, much higher wage base and reduce the rates commensurately, so that we were covering the full amount of wages, say at least up to the Social Security contribution base?

Mr. SMEDLEY. I think probably what the question was alluding to, that the small employer for his total payroll, $7,000 represents a higher part of the total payroll, and therefore the tax is a higher percentage of total payroll. Therefore the burden is greater on small employers than say on large employers. I think there is some merit to that question. The specific proposal we would have to look at before we take a position.

Mr. HOLLANDER. But what you just said would deal with that. It would make it more progressive.

Mr. SMEDLEY. Yes. I think the objective has merit.

Mr. PEASE. It is just a thought that occurred to me off the top of my head.

Fine. Thank you very much. We appreciate your spending the time with us today.

We will call the next four people to testify together in case we run short of questioning time.

We will hear from: Don Whiteley, chairman, Council on Unemployment Compensation, U.S. Chamber of Commerce; John Davidson, unemployment benefits attorney, Chrysler Corp., Council of State Chambers of Commerce; Warren Blue, senior vice president and general counsel of R.E. Harrington, Inc., National Association of Manufacturers; and Fred Kniesler, assistant commissioner for income security, New Jersey Department of Labor, Interstate Conference of Employment Security Agencies.

Mr. Whiteley, I understand, will be our first witness.

STATEMENT OF DONALD P. WHITELEY, CHAIRMAN, COUNCIL ON UNEMPLOYMENT COMPENSATION, CHAMBER OF COMMERCE OF THE UNITED STATES

[The prepared statement begins at p.76.]

Mr. WHITELEY. Thank you.

I am Donald Whiteley, personnel employment representative for ICI Americas, Inc., a former secretary of labor for the State of Delaware, and the chairman of the U.S. Chamber's Council on Unemployment Compensation.

We appreciate the opportunity to present the chamber's views on the current proposals to reform the UC system. We commend the chairman and the subcommittee members for holding these hearings at which the representatives of the employer community can participate in deliberations on this issue. Fortunately, record high levels of employment and correspondingly low unemployment rates eliminate the urgency usually associated with hearings on this issue. We believe these two important national developments allow for the thorough consideration of the legislation before this subcommittee.

The chamber is committed to assuring the long-term viability of this country's unemployment compensation system, a Federal-State partnership that fairly and promptly serves the needs of employees and employers. Under this system, qualified workers are provided with weekly income maintenance payments to assist them through periods of temporary, involuntary breaks in employment. Also, employers are assured of a stable work force through their contributions to Federal and State unemployment compensation accounts. We also recognize the need to assist those workers facing prolonged unemployment. As a result, we continue to support the full implementation of the services provided under the Job Training Partnership Act for dislocated workers, and look to the newly reauthorized Trade Adjustment Assistance Program to further assist the long-term unemployed.

In the interests of time, I will skip over a lot of the background in my statement, because I am sure you have heard it many times before, and you are very familiar with the background of the unemployment compensation system.

Mr. PEASE. We will put your full statement in the record.

Mr. WHITELEY. Fine.

I will go on to about page 6 of our statement where we point out that the FSC was enacted in 1982, modeled on the previous FSB

Program, and the FSC expired in March 1985. This program created a debt in the Federal Extended Unemployment Compensation Account that is still being repaid by a temporary 0.2 percent Federal tax on employers. Clearly, this is not the time to contemplate reauthorizing a new FSB-type program which might incur additional debts for the employers.

H.R. 4469 would revise and expand the current Federal Extended Benefits Unemployment Program in two fundamental ways. First, the legislation would allow qualified unemployed workers to be eligible for a maximum of 30 weeks of extended benefit coverage. Second, it establishes demonstration projects to study substate extended unemployment compensation triggers.

In March 1985, Congress failed to reauthorize legislation to extend the FSC Program. The FSC Program had been in effect for more than 3 years, and it was clear that the needs for the long-term unemployed were not being met by the program. In reality, the FSC payments, we believe, were allowing recipients to postpone making critical decisions regarding their reentry into the work force, postponing this decision on an additional 13 weeks. We believe this represents a waste of additional human resources and public dollars.

Unemployed workers who have demonstrated an attachment to the work force must be encouraged to seek aggressively new employment. If they do not possess the skills and abilities needed in the work force, Federal, State and local programs are currently in place to retrain and reeducate these workers.

The chamber continues to support those programs providing assistance to long-term unemployed workers, such as the JTPA Program. If such training programs are ignored, no one is served—least of all benefit recipients—by a program of protracted, extended unemployment benefits.

H.R. 4469 would direct the Department of Labor to establish at least three State demonstration projects to study the feasibility of using substate areas for payment of unemployment benefits. In theory, the use of substate triggers would allow for the collection and analysis of the local labor force information and allocation of benefits on the county level. It is believed that this method of serving the unemployed would be more responsive to local needs and benefit highly distressed counties or similar areas.

However, a recent DOL study identified a series of issues that we believe must be addressed in designing any benefit extension program using substate areas. We believe that three of the issues are of particular importance and warrant further consideration by the subcommittee before it reports legislation.

These include identifying the appropriate trigger rate options. The focus of this issue is the controversy surrounding whether to use the IUR or the TUR or some combination or variation. We believe that linking any new program to the TUR is unfair and discriminatory. Statistically, TUR is an unreliable measure if it includes individuals not counted in IUR. Furthermore, we believe that triggers for UI should be based on the population eligible for benefits, not all unemployed workers—and this is particularly true since the financing for the coverage to a large extent comes from employer contributions.

Second, establishing rate computation and trigger criteria that reflect seasonal fluctuations and the uniqueness of State laws. A strength of the current unemployment compensation system is the stabilizing role played by State governments. Creating substate programs threatens to undermine the States' role and the underlying premise of the unemployment compensation program, which is a Federal-State partnership.

The third problem is identifying the administrative problems and costs. Although implementing a substate program for extended unemployment benefits may be possible, we question the necessity, and we certainly raise the possibility that the costs would be substantially greater. Proper leadtime, administrative complexities of the individual State programs, new reporting and data collection costs would place significant new burdens on the unemployment compensation system and employers.

The administrative costs of the unemployment system right now are under study, and there are a lot of concerns about inadequate funding in the current administrative funding of the system. At a time when budget deficits are a national concern, we should not be adding to Federal budget outlay or employer costs.

In addition, there is a concern about the validity of statistical sampling of subunits of a State, and we are concerned about that.

In conclusion, the U.S. Chamber continues to support a strong unemployment compensation system for temporarily and involuntarily unemployed people. Historically, we have been pleased to be able to work with the Congress and the administration selectively to reform unemployment programs. We supported the 1981 reform of the EB Program.

Our support of such initiatives is based on our belief that an unemployment compensation system should encourage, not discourage, participants to return to work as soon as possible, and avoid lengthening the duration of benefits and the human tragedy of unemployment. We believe that H.R. 4469 fails to support this principle. Therefore, we cannot support this legislation.

Thank you.

Mr. PEASE. Thank you very much.

Our next witness will be John Davidson with the Council of State Chambers of Commerce.

STATEMENT OF JOHN P. DAVIDSON, UNEMPLOYMENT BENEFITS ATTORNEY, CHRYSLER CORP., COUNCIL OF STATE CHAMBERS OF COMMERCE

[The prepared statement begins at p. 80.]

Mr. DAVIDSON. I am here on behalf of the Council of State Chambers of Commerce. I am also with the Chrysler Corp. for about 18 years, working primarily with the unemployment benefits programs.

The purpose of our testimony, of course, is to oppose the bill as presently presented. I have presented the written statement, which I am sure you have before you and have had an opportunity to review. I will just briefly comment on some of those points rather than reading the entire statement.

Mr. PEASE. That will be fine.

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Mr. DAVIDSON. The main areas that we would have concern with in the bill tie in with the use of the total unemployment rate as a trigger for further extended benefits. As has been said by both Ms. Peterson and Mr. Whiteley, the use of a total unemployment rate does not truly reflect, and would not necessarily reach the people that it would sound like it is intended to reach. It is not an accurate figure. It is only based on a statistical sampling, whereas the insured unemployment rate is an accurate mathematical calculation.

Further, there are many individuals that may be included in the total unemployment rate, such as new entrants into the labor market, graduating students, for instance, or possibly even retirees looking for something just to fill in part of their spare time. These are not truly what I would consider an unemployed individual to the extent that they should be included as a factor in triggering on extended benefits.

The next area that we would have some concern with would be the use of the substate areas. The problem that I foresee in that is more of an administrative problem than a financing type of a problem. You may have an individual who lives in one area, but worked in another what would be considered a substate area. Where would you count this person? As of his place of residence or his place of employment?

How would you determine—if there were two areas side by side that had varying rates of benefit entitlement utilizing the graduated scale that you have in your bill, how would you determine which rate this person should be paid at? You would have the possible changes during the period of time that might affect this one person overlapping into more than one district.

I see nothing but an administrative nightmare for the various State agencies in trying to maintain the close control on the eligibility of the individual claimants.

Of course, then, the last item is the financing of these particular benefits. It has been said that although the bill proposes 50 percent or more being financed through Federal funds, you still have the impact right now of Gramm-Rudman-Hollings where administrative funds are being reduced, as well as funds available for benefit payment.

The creation of these funds is something—or the availability, I should say, of these funds is something that is of very critical interest. I don't think the employers of the country should be asked to pay a heavier unemployment tax, either in the form of the Federal tax or the State taxes. They should, instead, be encouraged to create more jobs with those funds; and this is part of the function, too, of the unemployment system, is to encourage the creation of stable employment.

I believe under those circumstances the bill, as it presently is submitted, is not a feasible vehicle to address the concerns that you have expressed.

Mr. PEASE. Thank you very much, Mr. Davidson. Mr. Blue.

STATEMENT OF WARREN BLUE, SENIOR VICE PRESIDENT AND GENERAL COUNSEL OF R.E. HARRINGTON, INC., AND CHAIRMAN, UNEMPLOYMENT COMPENSATION SUBCOMMITTEE, NATIONAL ASSOCIATION OF MANUFACTURERS

[The prepared statement begins at p. 82.]

Mr. BLUE. Thank you, Mr. Pease. As I think has been mentioned in my written statement, I am chairman of the National Association of Manufacturers Unemployment Subcommittee, and I am appearing on behalf of the NAM. I am not going to read the statement. I would like to make about five points, if I can. It will probably be a little repetitious, but please excuse me because it is probably worth repeating.

Mr. PEASE. Surely.

Mr. BLUE. It has been talked about before by even the labor side here. This is a temporary program to pay benefits to people who became unemployed through no fault of their own, and the NAM believes that that is the way the program should continue.

It has over the years been accepted, I believe, by the employer community that that temporary period probably extends as long as 39 weeks. I guess maybe we feel that because the tax to support this program comes entirely, with a very small exception, out of the employer profit, that we ought to be able to say it is time to decide to do this some other way after we have reached that point.

If I can comment on the trigger formula, particularly the use of the total insured rate, looking at the February 1986 figures from the Department of Labor, in using the 10 percent figure in the bill—and I use 10 percent because at 10 percent there is no need for the 105 percent in the 6-year backers.

So, looking at the 150 percent and assuming that 10 percent was over the 13-week period, the bill would have added eight more States to the trigger, and may have added 8 more in addition, if they met the 105 and the 8 years, which we don't have statistics on so we don't know. But at least the potential is for at least 16 additional States to be triggered, and I am sure that was the intention, no doubt about it, whereas for the insured unemployment, conceivably two more would have been added. So, using the TUR does add more States to the trigger, and that was obviously the intention of the bill.

I want to point out a couple of things, at least one thing that concerns me, concerns us. Eleven States now have work-sharing provisions. The way the work sharing works, and if they were to be instituted on a rather large basis would really "foul up" the use of the IUR, because instead of having 20 employees collecting unemployment benefits on a regular basis, under the work-sharing provision you may have 200 collecting partial benefits, and they would go right into that IUR figure, which I believe would trigger off, at least in some States, who have taken advantage of a provision of law that a lot of employers would like to have. So I suggest to you that that would create a problem, if it really is instituted on a rather large basis.

The TUR we don't believe is a useful tool to determine whether the trigger should go on or off. As was mentioned before, we don't think it is representative of the work force, and it is not statistical-

ly sound, not as sound as the insured unemployment rate that we are using now.

On the financing end, I think it has already been explained that the present FUTA tax would not be adequate to cover the cost of this program, if you would go beyond the present 50–50 shares, because now we talk about—and somebody mentioned general funds to be used for the 60-, 70-, 80-, 90-percent share, which would come about if the rate is high enough. It is my thought that that general revenue fund would come from the employer tax, because the same thing would happen now as happened before.

They would have to borrow the money from general revenue and the existing general employer tax would then have to be increased beyond the existing two-tenths of 1 percent which is now being used to repay an old debt to repeat a new debt. So we believe that the employer tax would end up paying for the so-called increased Federal share under this program.

We also think that the use of this type of system, and another reason we are opposed to it, is that it perpetuates a non-merit-rated tax to pay for unemployment benefits. Running an existing 60-, 70-, 80-, 90-percent share which comes out of the FUTA tax means a greater amount of benefits are going to be paid from the employer community. The employer community has always accepted this, and still accepts it as a merit-rated program and the more you do to make it less merit-rated the more we are opposed to it.

It would also encourage cost equalization, which was an issue in this Congress a year or two ago, because you immediately put States in a position who have good rates by reason of Federal share and using the FUTA tax to pay for States that do not have good unemployment rates, and higher unemployment. I believe you will find some opposition from those States that believe that they are handling this program properly, because what you have done is gone to much more of an insurance principle.

We have already heard from Mr. Davidson the effect of Gramm-Rudman. It already has had an effect, and if this were to be a conforming issue and the States would have to enact it, and then Gramm-Rudman were to cut back on the Federal share, that puts the States in the position of having to go back and change their laws or accept additional costs, just exactly as happened in the extended benefits program right now.

The substate triggers in our opinion accentuates the overall problem. It probably encourages the structural unemployed to stay in an area in which there is no "suitable work," which is the present requirement of the law, and thus becomes nonproductive. It is probably costly because the trigger, once on, will probably stay on maybe forever, in a high substate unemployment area. And as has already been mentioned, which I am not going to spend any time on, there is some difficulty in design and administration.

In conclusion, the NAM does recognize the need for doing something for the structurally unemployed. It does not favor the use of the unemployment system to do that. It does favor the use of the New Jersey pilot. The former Illinois pilot—by the way, in the Illinois pilot that awarded an incentive to the employer too, so not only the claimant but the employer got some money, and through the existing JTPA program.

And through some way of obtaining a higher concentration of effort on the part of the Job Service, Bureau of Unemployment Service or Job Services, to identify as they are trying to do in New Jersey, and do it nationwide what is happening to the unemployed, and try to get them back to work as quickly as possible.

Thank you, Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Blue.

Mr. Kniesler, I am going to call on you next, but we have a vote on on the floor of the House. I am going to have to declare a recess of the subcommittee for about 6 minutes while I go vote. I will be right back.

[Recess.]

Mr. PEASE. The subcommittee will reconvene. We will next hear testimony from Mr. Kniesler. I not only used the recess to vote, but I also learned how to pronounce your name in the interval.

STATEMENT OF FRED KNIESLER, ASSISTANT COMMISSIONER FOR INCOME SECURITY, NEW JERSEY DEPARTMENT OF LABOR, REPRESENTING INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, INC.

[The prepared statement begins at p. 89.]

Mr. KNIESLER. I am Fred Kniesler, Assistant Commissioner for Income Security of the New Jersey Department of Labor. I am here today speaking on behalf of the Interstate Conference of Employment Security Agencies, better known as ICESA. I think you could substitute "Administrators" for "Agencies" for that "A," because in fact we are an organization of the people that put this program, among others connected with unemployment insurance and the Employment Service, on the street. We are the ones who are directly involved at the State and local level with the implementation of the various programs.

We too have submitted a statement, which is not long, but rather comprehensive, and we would ask that you look at it with deliberation. I am not going to dwell on it today. I am going to touch on two or three points that we want to comment on and then comment on a couple of things we heard this morning.

Mr. PEASE. That is fine. All of the statements will be put in the record in full, and we appreciate your summaries.

Mr. KNIESLER. I wasn't prepared for the reference to my State activities as much as has been the case during the proceeding, but, in fact, I do have a handout containing some facts regarding the New Jersey demonstration project that I will leave for your staff, which may be of some assistance.

Mr. PEASE. Yes.

Mr. KNIESLER. With regard to our particular statement for this bill, these Federal changes that occurred in 1980 and 1981 have restricted the payments, changing the trigger mechanism, and eligibility requirements, and the conformity issues that the States were involved in. As a result, it did not only give time for the enactment of the legislation by the particular agencies, that is we were involved at one time with the famous FSC, and then we were given a program which we titled amongst ourselves as "son of FSC." Then we had "FSC III," and we were implementing these almost after

the fact, because of dates that were given us that were impossible to meet. There was no time allowed for the States to enact conformity legislation.

Consequently, now many State agencies are being visited by the OIG with a jaundiced eye on why and how we pay people, and all we were doing was trying to keep some unfortunate people, having them receive some sort of benefit. That we would like to prevent in the future.

The concepts of EB reform proposal in this H.R. 4469, is it desirable as drafted? It would create, we think, a more complicated and costly program, and that has been touched on before. Rather than just say it is no good like some people do to bills, we would say that we have submitted an alternative proposal based on some of the draft provisions that we would like to have looked at, studied and maybe something could be married out of the two.

With regard to demonstration projects in substate areas, our position is that there is at present no fair or feasible method developed for targeting benefits by substate area. I think that what has come out of today's discussions is that some discussion has to be held with BLS, because everything goes back to that. Certainly my group does not have the ability to determine how to do those things. We administer programs that are given us, and if it can be worked out that they are viable and sufficient and complete in a certain way, we will do them. That is the way it is.

If you are going to ask demonstration projects be conducted by States to attempt to develop a substate trigger, we would request that the States be given flexibility to experiment with the design. We have just gone through that process in another way in New Jersey with this demonstration project, and the design took quite a bit of time, and it is very important, because we do have a lot of particular differences among the various States in the country that we deal with, and what one State may be able to do or sees as their way of doing it is not necessarily true in another area.

We have naturally talked about training in our paper, and that dwelt to some extent on the New Jersey project. The New Jersey project is an experiment that does not use trust fund money for the project, and with the trigger "off" in New Jersey, in answer to your earlier question, in New Jersey none of the people in our program would be eligible at the present time. We would also encourage a look at the Job Bank and the Employment Service.

We think that the Job Bank does have value. It does need some support. Some States are doing a good job. All States do need some assistance in putting these things up. Administrative resources are stretched in most areas, and if it is a problem of getting the normal work done and the normal jobs accomplished, and you come in with a Job Bank enhancement-type provision, there has to be resources available to do that.

I think that is a "once over lightly" of what we have in our paper. I would like to comment that there was some discussion about I think a policy, and it touched on this book that I had with me, which is called the Federal Supplemental Benefits Program, an appraisal of emergency extended unemployment insurance benefits. It was put out by the W.E. Upjohn Institute for Employment Research, and there is some discussion in there about a decision to

be made if these extended benefit programs in the future are in fact insurance against wage losses or if in fact they are prevention, to lessen the incidence of poverty, and that is a whole different question. With that I will just tune out and we will get to your questioning.

Mr. PEASE. Thank you very much, sir. We have about 15 or 20 minutes for discussion. I am grateful for the testimony of all of you, and I would like to ask a series of questions. First of all, Mr. Whiteley, I think your testimony may be in error, sir, on page 6, where you say, "The FSC program is financed by employers." I think the FSC program is entirely funded from the Federal general fund. Perhaps you refer to the predecessor of the FSC program, which was financed by employers—the old FSB program?

Mr. WHITELEY. The FSB.

Mr. PEASE. You don't mean to indicate that the FSC program of the last 3 or 4 years was financed by employers?

Mr. WHITELEY. I don't believe so.

Mr. PEASE. I think probably prior to that time the old FSB program was employer financed, and it did create a debt.

Mr. WHITELEY. We are repaying this loan and it has a 0.2-percent Federal tax on employers, which we had hoped would expire this year, but we found some problems with the way the tax was being collected and reported by IRS, and that created some real hassles and there is still a big argument as to who is collecting what and how much is due and the IRS doesn't seem to know what they were collecting, and that has created some real problems, of course.

Mr. KNIESLER. We think that is true. We understand that has been at our discussions as well. We understand that may have cost a year to the employers because of the inability to determine what that figure is or where it went.

Mr. PEASE. I am told that the chairman of the subcommittee recently wrote to the commission on this subject and is anticipating a response.

Mr. WHITELEY. Everybody else has written and nobody has been able to get a response, so maybe he will have a greater success.

Mr. PEASE. The Ways and Means Committee authorizes the operating funds for the IRS.

Mr. WHITELEY. That is the kind of golden rule you need.

Mr. BLUE. That is clout.

Mr. PEASE. Gentlemen, my purpose in advancing this bill is really twofold: One, I think the current system, the system we have had over the last 3 years of State benefits and then EB, and then FSC on top, was a mess, very difficult for people to understand, certainly difficult for the recipients of unemployment benefits to understand, and I thought, and still think, that there ought to be some rationalization.

Second, I recognize that often when we change the unemployment compensation laws, we have required the States to follow suit, and that it takes at minimum a year and probably more like 1½ or 2 years for the States to come into conformity with new Federal legislation. It was my hope that we could legislate a change in the unemployment compensation laws now, when we are not in a recession and not under the gun, so that we can do it with some

calmness and deliberation. Of course, we should do it in time to give the States an opportunity to conform their laws.

Typically what happens is that Congress doesn't legislate in this area, except in the depth of a deep recession, when there is a crisis and a lot of political pressure. At that time the argument is made that we have to do something fast and get it out, and we can't wait 18 months to let the States conform their laws. Therefore, we just have to do something like FSC, which is an add on.

Having said that, let me ask you this question. If another recession comes, as it inevitably will sooner or later, let's say it would come 2 years from now, and the recession were as deep as the one in 1982. You would, I think, remember the pressures on Congress to "do something" for unemployed workers. At that time, under those conditions what would you rather have, a new FSC program or something like I have suggested?

Mr. WHITELEY. I would like to react to something you said at the beginning of your talk, you are to be commended for thinking about it now, because it doesn't often happen that people think ahead. And oftentimes we are reacting rather than preparing ahead of time. I think that is very commendable. We certainly recognize that long-term unemployment is a problem. We have a feeling that trying to attach solutions to the basic unemployment system, however, is probably not the way to do it.

I think it probably generates more opposition than anything, because a lot of people like the system the way it is, relatively simple, and to try to solve all the problems by hooking it onto the existing system I think probably is going to continue to get a lot of opposition.

The long-term unemployed is indeed a problem, but it might need an approach that doesn't tie it to the existing unemployment compensation system.

Mr. PEASE. I want to ask you about that also in just a minute. But under the set of circumstances I have been postulating, this would not be long-term unemployment. Let's say the unemployment rate went from 7.3 to 11 percent in a period of 6 months, because of a recession. Then we are dealing with classic short-term unemployment. Now, if that happens, which would you rather have, something like my bill in place to deal with that, or a new FSC program?

Mr. BLUE. If I can comment, given the choice, FSC, which was financed by general funds, as you commented, would at least be the more preferable of the two, again because of my comment earlier that we believe that the employer responsiblity does stop at some point, and it becomes a social welfare general community responsibility. So if you are giving us the kind of choice, the kinds of choices you are asking, it would have to be an FSC program if that had to be done.

Mr. PEASE. Thank you. Anybody else?

Mr. KNIESLER. Talking about looking ahead, and if and when it happens, if we are hit with a drastic instance of high unemployment, it is much, much better to have something on the books, to have your computer programmed, to have your tables drawn, than to be hit like we were last time with three States of actually in some instances going back, notifying exhaustees to report to offices

and possibly they would be eligible for additional weeks, and then they get there and possibly they were and possibly they were not. I will tell you, if you can plan ahead, which you are starting, attempting to do, and get something that is workable, that is the way to do it. Believe me, I have been there.

On the other hand, we are talking about revenue, because your colleague had some concerns, I understand, about the use of general revenue, and you are from Ohio and understand as we do the term "debtor State." That is a great phrase. We still have two States that have the unfortunate designation of "billionaires." We have I think Michigan and Pennsylvania still owe $1 billion-plus back for their drawdown.

When you go into the debtor category, you are using general revenue funds. If you have an extended benefit, or a program that uses general revenue funds earlier, to subsidize that program, rather than forcing the State to go into a borrowing mode, when the economy turns around, you recover more quickly, because you have the ability, you don't have that hanging around your neck. In other words, if the program is structured so that the Federal power gets higher sooner, when the economy goes back up again, that State is on its feet more quickly.

Mr. WHITELEY. To answer for the chamber, I think we would prefer the FSC-type program, and the basic reason being, as I read your bill, it does require contribution from the State, which would in turn be employer taxes, most likely, as opposed to a general revenue which FSC would come under, and so I think probably in that circumstance we would prefer the FSC.

Mr. PEASE. I would point out that in a period of high unemployment, the large percentage of the money would come from the Federal Government, but there would always be a State contribution.

Mr. DAVIDSON. Mr. Pease, if I may.

Mr. PEASE. Surely.

Mr. DAVIDSON. I recall when the extended benefit program initially came into effect back in 1970, I was involved in some conversations with Michigan where we were trying to get our conformity legislation in line. Part of the philosophy of the employer groups that I was meeting with at that time also tended to indicate that true short-term unemployment, that is, the first 26 weeks, might be able to be related to the individual employer. To get beyond that, you are getting into something a little bit more what you are referring to as long term, and that is not under the control of an individual employer.

To that extent we supported the idea at that time that portions of the extended benefit, the extra 13 weeks, would be covered through Federal funds. Going beyond the now 39 weeks that you got with your basic and your first State extensions, you are really getting into something that is more economywide, and it is not related to an individual employer, or even an individual industry, and we feel that under those circumstances again asking the employer to pay for that is taking money away where he could be better using that money to create jobs and reduce the unemployment rate.

Mr. PEASE. I would like to ask you three gentlemen from business organizations whether you think that there is any obligation

to long-term unemployed workers, aside from providing training and job search resources. Do you see any obligation at all to provide money for groceries and rent and that sort of thing on a long-term basis, or not?

Mr. WHITELEY. I suppose we have an equal obligation to any other citizen in the country. I don't know that we have any special obligation beyond that, but I think we would probably have the same obligation as any other citizen would have to help share those concerns.

Mr. BLUE. I think we are talking about basically the same answer we gave you before. Up to a point. And at that point it becomes a responsibility of us as citizens and the general community as a whole, at which point something should be done. We are certainly not going to leave them destitute. There is no intention that that would ever be done.

Mr. WHITELEY. Let me clarify it. I didn't meant to ask you does business have any obligation to the long-term unemployed. I am thinking now of society as a whole. As we mentioned earlier, one of the reasons why we have a lot of argument about unemployment compensation is that the system is being employed or is an attempt to employ the system to deal with long-term unemployed when it was really designed to deal with short-term unemployment. We have right now short-term unemployment benefits for 26 weeks in 48 out of 50 States, and after that, there is nothing except welfare. I think the suggestion, from some people, is that there ought to be something in between for the steelworker who has been gainfully employed for 25 years by the same employer and all of a sudden finds himself without a job.

I guess what I am thinking is that the pressure to expand unemployment compensation will be diminished to the extent that there is an alternative, some way station between unemployment compensation and welfare for workers. So my question is, do you believe that society, probably in the form of the government, has any obligation to devise a specific program for people who are unemployed for more than 26 or 39 weeks, but who aren't quite at the stage where they are the typical welfare recipients?

Mr. WHITELEY. I think title III of the JTPA programs are designed hopefully to provide some of that transition from employment in one industry into a different situation, particularly when industries collapse partly as a result of national economic policy, and so I think JTPA is one of the means which those kinds of transitions make and the TAA I think is another area.

Mr. PEASE. My original question was, Is there any obligation on the part of society other than retraining and job search; in other words, any type of weekly or monthly benefits or alternatives to job benefits?

Mr. BLUE. It seems to me society has already answered that. The answer is yes. There are already programs in place to take care of people. The real question I guess you are asking is should there be more for a certain segment of the population that has become structurally unemployed.

Mr. PEASE. Exactly right.

Mr. BLUE. That is a Government decision that probably would have the support of most of the population.

Mr. PEASE. We always seek advice from groups like NAM and the Chamber of Commerce when we make these momentous decisions.

Mr. BLUE. Thank you.

Mr. PEASE. That is why I asked the question.

Mr. WHITELEY. There are all kinds of so-called welfare programs in place, and perhaps you are talking about changing the eligibility criteria, so people who have resources, homes and so on, who would not ordinarily be eligible under those programs, might thereby be eligible for those kinds of supplemental programs, and that is a real tough problem.

Mr. PEASE. That is what I am getting at. I come from an area where this is not an academic question. There are 6,000 steelworkers who formerly worked at the Lorain works of United States Steel and who no longer work there anymore, very little chance of going back, and the unemployment rate is about 9.5 percent in our county even now. So the question is do we say to those workers: You worked for United States Steel for 25 years, haven't missed a day, now you are laid off. You are not going to get your job back. We will give you 26 weeks and then it is on to welfare for you.

And of course they don't qualify for welfare because they have got too many assets, so what we are really saying to them is after 26 weeks you must then divest yourself of all your assets, your house, your car, your boat, everything else, and then go on welfare.

Is that what you think our policy as a society ought to be? If not, then I think we have to search for what that way station should be.

Mr. WHITELEY. That is a real tough question. I haven't run across anybody yet that even has a glib answer because it is a terrible problem. I have talked to some of these people in my own State when I was Secretary of Labor, people who were in companies that just were not coming back. They were of an age where reeducation and training was difficult. They did have assets. They couldn't qualify for welfare, and I think we are going to have to have somebody more creative than me to come up with an answer to that.

Mr. PEASE. Obviously I am not looking for a solution now. I guess what I am trying to do is pique your interest a little bit. It seems to me if the major business groups of this country would, as a matter of policy, decide that something ought to be done, then we could begin the search to find out what that something ought to be. But at the moment I am not aware of a commitment by any of the groups represented at this table that there ought to be a solution of some sort. Is that a fair statement, do you think?

Mr. BLUE. Beyond the very significant commitment for retraining which you have already mentioned, which we have set off to one side.

Mr. KNIESLER. I would just like to interject one operation that does take place in some States. I know in ours in particular we have a plant closing response team that goes into a situation of mass layoffs and mass closings. That involves organized labor, Employment Service, the unemployment insurance operation and the local SDA. In addition to that, we are participating currently with NGA in exploring the various facets of what is called the Canadian model, which, through active involvement by industry itself, has

seemed to be very successful in closings. When you talk about a large population of older people, I understand what you are saying. That is not going to be solving all that.

The other thing you are going to deal with is the long period of psychological situations where they don't believe that it is not going to open, and they will not go into training or will not go into alternatives, seeking any other avenue until it finally dawns on them that that plant is never going to open again. I don't know how you combat that unless you get into almost like a real professional outside counseling-type firm.

The other aspect that doesn't work in this country is the relocation situation. People in this country do not move for a lot of reasons. It is not as simple as a European country where they have developed some plans along that line, so you open this discussion up and you have got a long, long table of people that you have to talk to.

Mr. PEASE. Thank you very much. I think the testimony has been excellent from this panel, and all morning long. It is going to be useful to the subcommittee. We appreciate your coming this morning.

This will conclude the hearing. We will put a statement by Chairman Ford in the record.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

APPENDIX

FOR IMMEDIATE RELEASE
FRIDAY, JUNE 13, 1986

PR #18
SUBCOMMITTEE ON PUBLIC ASSISTANCE
AND UNEMPLOYMENT COMPENSATION
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3627

THE HONORABLE HAROLD FORD (D., TENN.), CHAIRMAN,
SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION,
COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES,
ANNOUNCES A HEARING ON H.R. 4469 (MR. PEASE, MR. STARK, ET AL),
LEGISLATION WHICH WOULD PROVIDE AN IMPROVED PROGRAM
OF EXTENDED UNEMPLOYMENT COMPENSATION,
TO BE HELD ON TUESDAY, JUNE 24, 1986

The Honorable Harold Ford (D., Tenn.), Chairman, Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, U.S. House of Representatives, announced today that a public hearing on H.R. 4469 (Mr. Pease, Mr. Stark, et al), legislation that would provide an improved program of extended unemployment compensation, will be held on Tuesday, June 24, 1986, in room 1100 Longworth House Office Building, beginning at 10:00 a.m.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler [(202) 225-3627] no later than close of business, Thursday, June 19, 1986, to be followed by a formal written request to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee [(202) 225-1025].

It is urged that persons and organizations having a common position make every effort to designate one spokesperson to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearing (see formatting requirements enclosed). This process will afford more time for members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

(MORE)

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 75 copies of their prepared statements to the Subcommittee office, Room B-317 Rayburn House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statements by the close of business, July 3, 1986, to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1100 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and interested public, they may deliver 75 additional copies for this purpose to 1100 Longworth House Office Building on the date of the hearing.

COMMITTEE ON WAYS AND MEANS FORMATTING REQUIREMENTS FOR PRINTING OF HEARING STATEMENTS, WRITTEN COMMENTS AND EXHIBITS

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will **not** be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing may be submitted in other forms.

I

99TH CONGRESS
2D SESSION

H. R. 4469

To provide an improved program of extended unemployment compensation, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 20, 1986

Mr. PEASE (for himself, Mr. CLINGER, Mr. LEVIN of Michigan, Mr. STARK, Ms. KAPTUR, and Mr. SEIBERLING) introduced the following bill; which was referred jointly to the Committees on Ways and Means, and Education and Labor

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A BILL

To provide an improved program of extended unemployment compensation, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Extended Unemployment Insurance Reform Act of 1986".

TITLE I—IMPROVED PROGRAM OF EXTENDED UNEMPLOYMENT COMPENSATION

SECTION 101. NUMBER OF WEEKS OF EXTENDED UNEMPLOYMENT COMPENSATION.

(a) AMOUNT OF EXTENDED COMPENSATION.—Section 202(b)(1) of the Federal-State Extended Unemployment Compensation Act of 1970 is amended—

(1) by inserting after the first sentence the following new sentence: "The amount of extended compensation payable to any individual for any eligibility period shall not exceed the amount established in such individual's account for the benefit year in which such eligibility period begins.";

(2) in subparagraph (A), by striking out "50 per centum" and inserting in lieu thereof "116 percent";

(3) in subparagraph (B), by striking out "thirteen" and inserting in lieu thereof "the applicable limit determined under paragraphs (2) and (3),"; and

(4) in subparagraph (C), by striking out "thirty-nine" and inserting in lieu thereof "a number equal to 26 plus the applicable limit determined under paragraphs (2) and (3),".

(b) NUMBER OF WEEKS.—Section 202(b) of such Act is amended by redesignating paragraph (2) as paragraph (4) and

by inserting after paragraph (1) the following new paragraphs:

"(2) The applicable limit for purposes of paragraph (1) is—

"(A) 30 weeks in the case of weeks beginning in an 8-percent period;

"(B) 25 weeks in the case of weeks beginning in a 7-percent period;

"(C) 20 weeks in the case of weeks beginning in a 6-percent period;

"(D) 15 weeks in the case of weeks beginning in a 5-percent period;

"(E) 10 weeks in the case of weeks beginning in a 4-percent period; and

"(F) 0 weeks in the case of weeks beginning in a low-unemployment period,

as such periods are defined in section 203.

"(3)(A) Except as provided in subparagraph (B), the applicable limit for an individual's compensation account shall be based upon the applicable limit in effect for the benefit duration period in which such individual's eligibility period begins, and shall remain in effect with respect to such individual for the duration of such eligibility period, without regard to subsequent changes in the applicable limit in effect for such State.

"(B) If, during an individual's eligibility period, the applicable limit for the State increases, the applicable limit for such individual's account shall be increased to such higher limit.".

(c) ELIGIBILITY PERIOD.—Section 202 of such Act is amended by striking out subsection (c) and inserting in lieu thereof the following:

"Eligibility Period

"(c) An individual's eligibility period for any benefit year shall consist of the first week in such benefit year for which he meets the requirements of subsection (a)(1), and those subsequent weeks of unemployment in such benefit year (or in the following benefit year if consecutive from the last week of the prior benefit year), but shall not exceed the number of weeks equal to the applicable limit for such individual as determined under subsection (b).

"Payment of Extended Compensation Under Interstate Claim

"(d) The amount and duration of extended compensation payable to an individual under the interstate benefit payment plan shall be the same as if such individual were filing his claim in the State which establishes such individual's extended compensation account.".

SEC. 102. UNEMPLOYMENT PERIODS.

Section 203 of the Federal-State Extended Unemployment Compensation Act of 1970 is amended to read as follows:

"UNEMPLOYMENT PERIODS

"Benefit Duration Period

"SEC. 203. (a) Each benefit duration period established under this section shall be a 3-month period, beginning on the first Sunday of January of each year, and the first Sunday of every third month thereafter.

"Eight-Percent Period

"(b) A benefit duration period shall be a '8-percent period' with respect to a State if the adjusted rate of insured unemployment under the State law for the period consisting of the first week of such benefit duration period and the immediately preceding 12 weeks—

"(1) equaled or exceeded 8 percent, and

"(2) equaled or exceeded 105 percent of the average of such rates for the corresponding 13-week period ending in each of the preceding 6 calendar years.

"Seven-Percent Period

"(c) A benefit duration period shall be a '7-percent period' with respect to a State if the adjusted rate of insured unemployment under the State law for the period consisting of the first week of such benefit duration period and the immediately preceding 12 weeks—

"(1)(A) equaled or exceeded 7 percent, and

"(B) equaled or exceeded 105 percent of the average of such rates for the corresponding 13-week period ending in each of the preceding 6 calendar years; or

"(2) equaled or exceeded 8 percent, but did not meet the requirement of subsection (b)(2).

"Six-Percent Period

"(d) A benefit duration period shall be a '6-percent period' with respect to a State if the adjusted rate of insured unemployment under the State law for the period consisting of the first week of such benefit duration period and the immediately preceding 12 weeks—

"(1)(A) equaled or exceeded 6 percent but was less than 7 percent, and

"(B) equaled or exceeded 105 percent of the average of such rates for the corresponding 13-week period ending in each of the preceding 6 calendar years; or

"(2) equaled or exceeded 7 percent and was less than 8 percent, but did not meet the requirement of subsection (c)(1)(B).

"Five-Percent Period

"(e) A benefit duration period shall be a '5-percent period' with respect to a State if the adjusted rate of insured unemployment under the State law for the period consisting

of the first week of such benefit duration period and the immediately preceding 12 weeks—

"(1)(A) equaled or exceeded 5 percent but was less than 6 percent, and

"(B) equaled or exceeded 105 percent of the average of such rates for the corresponding 13-week period ending in each of the preceding 6 calendar years; or

"(2) equaled or exceeded 6 percent and was less than 7 percent, but did not meet the requirement of subsection (d)(1)(B).

"Four-Percent Period

"(f) A benefit duration period shall be a '4-percent period' with respect to a State if the adjusted rate of insured unemployment under the State law for the period consisting of the first week of such benefit duration period and the immediately preceding 12 weeks—

"(1)(A) equaled or exceeded 4 percent but was less than 5 percent, and

"(B) equaled or exceeded 130 percent of the average of such rates for the corresponding 13-week period ending in each of the preceding 6 calendar years; or

"(2) equaled or exceeded 5 percent and was less than 6 percent, but did not meet the requirement of subsection (e)(1)(B).

"Low-Unemployment Period

"(g) A benefit duration period shall be a 'low-unemployment period' with respect to a State if the adjusted rate of insured unemployment under the State law for the period consisting of the first week of such benefit duration period and the immediately preceding 12 weeks was less than 4 percent.

"Alternate Determination of Benefit Duration Period Based Upon Total Rate of Unemployment

"(h)(1) If the application of the provisions of this subsection results in a higher applicable limit for a State under section 202(b)(2), the applicable limit for such State for purposes of section 202(b)(2) shall be determined under this subsection, rather than under subsections (b) through (g).

"(2) A State shall be deemed to be in an '8-percent period', '7-percent period', '6-percent period', '5-percent period', or '4-percent period' if—

"(A) in the case of a State for which the Bureau of Labor Statistics compiles data on a month-to-month basis with respect to the seasonally adjusted total unemployment rate, such adjusted rate for such State for the month preceding the month in which such week begins falls within the applicable range described in paragraph (3); or

"(B) in the case of a State not described in subparagraph (A)—

"(i) the average monthly total rate of unemployment for such State for the 12-month period immediately preceding the month in which such week begins falls within the applicable range described in paragraph (3), and

"(ii) the total rate of unemployment for such State for the month preceding the month in which such week begins falls within such applicable range.

"(3) For purposes of paragraph (2), the applicable range is as follows:

"In the case of a:	The applicable range is:
8-percent period	A rate equal to or exceeding 13 percent.
7-percent period	A rate equal to or exceeding 12 percent but less than 13 percent.
6-percent period	A rate equal to or exceeding 11 percent but less than 12 percent.
5-percent period	A rate equal to or exceeding 10 percent but less than 11 percent.
4-percent period	A rate equal to or exceeding 9 percent but less than 10 percent.

"ADJUSTED RATE OF INSURED UNEMPLOYMENT

"(i)(1) For purposes of this section, the term 'adjusted rate of insured unemployment' means the percentage arrived at by dividing—

"(A) the average weekly number of individuals filing claims for regular compensation for weeks of un-

employment with respect to the specified period, as determined on the basis of the reports made by the State agency to the Secretary, by

"(B) the average monthly covered employment for the specified period,

and seasonally adjusted in the same manner as the total rate of unemployment is seasonally adjusted as determined by the Bureau of Labor Statistics.

"(2) For purposes of determining the adjusted rate of insured unemployment for periods prior to the time such rate was established, the Secretary of Labor shall estimate such rate on the basis of the rate of insured unemployment for such periods and the adjusted total rate of unemployment for such periods.

"(3) The adjusted rate of insured unemployment for any 13-week period shall be determined by reference to the average monthly covered employment under the State law for the first four of the most recent six calendar quarters ending before the close of such period.".

SEC. 103. PAYMENTS TO STATES.

(a) APPLICABLE PERCENTAGE.—Section 204(a) of the Federal-State Extended Unemployment Compensation Act of 1970 is amended by redesignating paragraphs (2) and (3) as paragraphs (3) and (4), and by striking out paragraph (1) and inserting in lieu thereof the following:

"(1) There shall be paid to each State an amount equal to the applicable percentage (as determined under paragraph (2)) of the sum of the sharable extended compensation and the sharable regular compensation paid to individuals under the State law.

"(2) Except as otherwise provided in paragraph (3), the applicable percentage is—

"(A) 90 percent with respect to compensation paid during an '8-percent period';

"(B) 80 percent with respect to compensation paid during a '7-percent period';

"(C) 70 percent with respect to compensation paid during a '6-percent period';

"(D) 60 percent with respect to compensation paid during a '5-percent period'; and

"(E) 50 percent with respect to compensation paid during a '4-percent period'.".

(b) CONFORMING AMENDMENTS.—(1) Section 204(b) of such Act is amended by striking out "subsection (a)(1)(A)" and inserting in lieu thereof "subsection (a)(1)".

(2) Section 204(c) of such Act is amended to read as follows:

"Sharable Regular Compensation

"(c) For purposes of subsection (a)(1), 'sharable regular compensation' means regular compensation paid to an indi-

vidual for a week of unemployment in such individual's eligibility period—

"(1) to the extent that such amount exceeds an amount equal to 26 times the average weekly benefit amount (including allowances for dependents) for weeks of total unemployment payable to such individual under the State law in the benefit year in which such eligibility period begins; and

"(2) which would qualify as 'sharable extended compensation' under subsection (b) if it were 'extended compensation'.".

(3) Section 205(3) of such Act is amended by striking out "beginning in an extended benefit period".

SEC. 104. TRANSFERS TO EXTENDED UNEMPLOYMENT COMPENSATION ACCOUNT.

Section 905(b) of the Social Security Act is amended by adding at the end thereof the following new paragraph:

"(4)(A) In addition to the amounts transferred into the extended unemployment compensation account pursuant to paragraph (1), there are authorized to be appropriated, without fiscal year limitation, to such account, an amount equal to—

"(i) 100 percent of the amount of the Federal payments required to be made to States under section 204(a)(1) of the Federal-State Extended Unemploy-

ment Compensation Act of 1970 with respect to compensation paid during an '8-percent period' (as required under section 204(a)(2)(A) of such Act); plus

"(ii) 75 percent of the amount of the Federal payments required to be made to States under section 204(a)(1) of the Federal-State Extended Unemployment Compensation Act of 1970 with respect to compensation paid during a '7-percent period' (as required under section 204(a)(2)(B) of such Act); plus

"(iii) 50 percent of the amount of such Federal payments with respect to compensation paid during a '6-percent period' (as required under section 204(a)(2)(C) of such Act); plus

"(iii) 25 percent of the amount of such Federal payments with respect to compensation paid during a '5-percent period' (as required under section 204(a)(2)(D) of such Act).

"(B) Amounts appropriated pursuant to subparagraph (A) shall not be required to be repaid.".

SEC. 105. TRANSITION PROVISIONS.

(a) IN GENERAL.—(1) In the case of a State the legislature of which is in session on 30 calendar days or more (whether or not successive) between the date of enactment of this Act and January 1, 1987, the amendments made by this

Act shall apply to weeks of unemployment beginning after January 1, 1987.

(2) For all other States, the amendments made by this Act shall apply to weeks of unemployment beginning after June 1, 1987.

(b) DEFINITION.—For purposes of subsection (a), the phrase "in session on 30 calendar days or more" means the aggregate days during which a State legislature is in one or more regular, special, budget, emergency, or other sessions.

(c) SATISFACTION OF INTERNAL REVENUE CODE REQUIREMENTS.—Enactment of conforming amendments to State laws by the applicable dates specified in this section shall be a requirement of section 3304(a)(11) of the Internal Revenue Code of 1954 and for certification under section 3304(c) of such Code. If a State enacts the amendments to its law at an earlier date than required, there shall be a conformity requirement from such date of enactment.

TITLE II—DEMONSTRATION PROJECTS

SEC. 201. EXTENDED UNEMPLOYMENT COMPENSATION FOR SUBSTATE AREAS.

(a) IN GENERAL.—The Secretary of Labor (hereinafter in this section referred to as the "Secretary") shall enter into an agreement with at least 3 States to carry out a demonstration program under the Federal-State Extended Unem-

ployment Compensation Act of 1970, as amended by title I of this Act and modified by this section.

(b) COMPENSATION MADE AVAILABLE ONLY IN CERTAIN SUBSTATE AREAS.—In applying the Federal-State Extended Unemployment Compensation Act of 1970 for purposes of this section, the Secretary of Labor shall provide that compensation is made available only in areas which—

(1) meet the requirements of a benefit duration period, as specified in subsection (c),

(2) contain not less than 5 percent of the population of the State in which they are located, and

(3) in the case of areas with portions of more than 1 county, are comprised of contiguous counties.

(c) DETERMINATION OF BENEFIT DURATIONAL PERIODS.—For purposes of determining a benefit duration period for an area under section 203 of such Act as modified by this section—

(1) a benefit duration period shall be a "8-percent period" with respect to an area if the adjusted rate of insured unemployment under the State law for the period consisting of the first week of such benefit duration period and the immediately preceding 12 weeks—

(A) equaled or exceeded 9 percent, and

(B) equaled or exceeded 105 percent of the average of such rates for the corresponding 13-

week period ending in each of the preceding 6 calendar years;

(2) a benefit duration period shall be a "7-percent period" with respect to an area if the adjusted rate of insured unemployment under the State law for the period consisting of the first week of such benefit duration period and the immediately preceding 12 weeks—

(A)(i) equaled or exceeded 8 percent but was less than 9 percent, and

(ii) equaled or exceeded 105 percent of the average of such rates for the corresponding 13-week period ending in each of the preceding 6 calendar years; or

(B) equaled or exceeded 9 percent, but did not meet the requirement of paragraph (1)(B);

(3) a benefit duration period shall be a "6-percent period" with respect to an area if the adjusted rate of insured unemployment under the State law for the period consisting of the first week of such benefit duration period and the immediately preceding 12 weeks—

(A)(i) equaled or exceeded 7 percent but was less than 8 percent, and

(ii) equaled or exceeded 105 percent of the average of such rates for the corresponding 13-

week period ending in each of the preceding 6 calendar years; or

(B) equaled or exceeded 8 percent and was less than 9 percent, but did not meet the requirement of paragraph (2)(A)(ii);

(4) a benefit duration period shall be a "5-percent period" with respect to an area if the adjusted rate of insured unemployment under the State law for the period consisting of the first week of such benefit duration period and the immediately preceding 12 weeks—

(A)(i) equaled or exceeded 6 percent but was less than 7 percent, and

(ii) equaled or exceeded 105 percent of the average of such rates for the corresponding 13-week period ending in each of the preceding 6 calendar years; or

(B) equaled or exceeded 7 percent and was less than 8 percent, but did not meet the requirement of subparagraph (3)(A)(ii);

(5) a benefit duration period shall be a "4-percent period" with respect to an area if the adjusted rate of insured unemployment under the State law for the period consisting of the first week of such benefit duration period and the immediately preceding 12 weeks—

(A)(i) equaled or exceeded 5 percent but was less than 6 percent, and

(ii) equaled or exceeded 105 percent of the average of such rates for the corresponding 13-week period ending in each of the preceding 6 calendar years; or

(B) equaled or exceeded 6 percent and was less than 7 percent, but did not meet the requirement of subparagraph (4)(A)(ii); and

(6) a benefit duration period shall be a "low-unemployment period" with respect to an area if the rate of total unemployment under the State law for the period consisting of the first week of such benefit duration period and the immediately 12 weeks was less than 5 percent.

(d) LIMITATION.—There shall be no benefit duration period established under this section with respect to an area during any time in which there is in effect a benefit duration period for the State which includes such area.

(e) DETERMINATION OF INDIVIDUAL'S PERIOD OF ELIGIBILITY.—For purposes of this section, the determination of an individual's period of eligibility or of whether there is an extended benefit period applicable to the individual shall be made by reference to the area in which the individual was last employed during the base period for the benefit year with

respect to which such individual most recently received regular compensation.

(f) BENEFIT AMOUNT.—For purposes of this section, the amount of an individual's average weekly benefit amount shall be determined in the same manner as determined for purposes of section 202(b)(1)(C) of the Federal-State Extended Unemployment Compensation Act of 1970.

(g) ALTERNATE DETERMINATION OF BENEFIT DURATION PERIOD BASED UPON TOTAL RATE OF UNEMPLOYMENT.—(1) If the application of the provisions of this subsection results in a higher applicable limit for an area under section 202(b)(2) of the Federal-State Extended Unemployment Compensation Act of 1970, the applicable limit for such area for purposes of section 202(b)(2) of such Act shall be determined under this subsection, rather than under subsections (b) through (g) of such Act or subsection (c) of this section.

(2) An area shall be deemed to be in an "8-percent period", "7-percent period", "6-percent period", "5-percent period", or "4-percent period" if—

(A) in the case of an area for which the Bureau of Labor Statistics compiles data on a month-to-month basis with respect to the seasonally adjusted total unemployment rate, such adjusted rate for such area for the month preceding the month in which such week

begins falls within the applicable range described in paragraph (3); or

(B) in the case of an area not described in subparagraph (A)—

(i) the average monthly total rate of unemployment for such area for the 12-month period immediately preceding the month in which such week begins falls within the applicable range described in paragraph (3), and

(ii) the total rate of unemployment for such area for the month preceding the month in which such week begins falls within such applicable range.

(3) For purposes of paragraph (2), the applicable range is as follows:

In the case of a:	The applicable range is:
8-percent period	A rate equal to or exceeding 14 percent.
7-percent period	A rate equal to or exceeding 13 percent but less than 14 percent.
6-percent period	A rate equal to or exceeding 12 percent but less than 13 percent.
5-percent period	A rate equal to or exceeding 11 percent but less than 12 percent.
4-percent period	A rate equal to or exceeding 10 percent but less than 11 percent.

(h) PAYMENTS TO STATES.—For purposes of making payments to States under section 204(a)(1) of such Act for compensation paid under this section, the term "under the State law" shall mean under this section.

SEC. 202. PROMOTION OF TRAINING PROGRAMS FOR INDIVIDUALS RECEIVING UNEMPLOYMENT COMPENSATION.

(a) ASSISTANCE TO STATES.—The Secretary of Labor (hereinafter in this section referred to as the "Secretary") shall enter into an agreement with at least 5 States to carry out a demonstration program under this section. In carrying out such program, the Secretary shall—

(1) develop model criteria that States can use—

(A) in approving training programs for individuals receiving unemployment compensation; and

(B) in approving individuals to participate in such programs while receiving unemployment compensation;

(2) provide technical assistance to States in developing and implementing the criteria described in paragraph (1); and

(3) make available data and other information concerning State laws and regulations that are in effect with respect to such training programs for individuals receiving unemployment compensation.

(b) RESPONSIBILITIES OF GOVERNORS.—

(1) APPROVAL OF TRAINING PROGRAMS.—

(A) The Governor of each State with which an agreement is entered into under this section

shall, in connection with the unemployment compensation program carried out under the State law approved under section 3304 of the Internal Revenue Code of 1954, designate a State agency that shall be responsible for making prompt determinations with respect to which training programs are approved for individuals receiving unemployment compensation.

(B) For purposes of determinations described in subparagraph (A), the State agency shall approve any training program offered by an accredited training or educational institution unless the agency determines, from a preponderance of evidence, that the training is entirely unrelated to employment or is for a vocation for which employment opportunities do not exist and are unlikely to become available.

(2) APPROVAL OF INDIVIDUALS' PARTICIPATION IN TRAINING.—

(A) The Governor of each such State shall, in connection with the unemployment compensation program carried out under the State law approved under section 3304 of the Internal Revenue Code of 1954, designate a State agency that shall be responsible for making prompt determina-

tion of the eligibility of individuals to participate in training programs approved pursuant to paragraph (1).

(B) For purposes of determinations described in subparagraph (A), the State agency shall consider whether an individual's prospects for obtaining suitable employment in the area in which the individual resides will be improved as a result of such training, taking into consideration the employment opportunities that are or may be expected to become available in such area. The State agency shall approve an individual's participation in any training program approved pursuant to paragraph (1) unless the agency determines, from a preponderance of evidence, that the training is entirely unrelated to employment or is for a vocation for which employment opportunities do not exist and are unlikely to become available.

(c) STUDY.—(1) The Secretary shall conduct a study for the purpose of evaluating the implementation of this section.

(2) Such study shall be conducted over a 12-month period.

(3) In carrying out such study, the Secretary shall consider at least the following:

(A) The average period during which unemployment compensation was paid to individuals who participated in training programs and the average period during which such compensation was paid to other individuals.

(B) Whether individuals who participated in training programs received higher paying jobs than those who did not, although the individuals had similar skills before participation in such a program.

(C) Whether individuals' participation in training programs increased or reduced costs of administering and paying unemployment compensation.

(D) Whether participation in training programs had any effect on other State or Federal assistance programs, including the food stamp program, the aid-for-families-with-dependent-children program, or general assistance programs.

(4) The Secretary shall transmit such study to both Houses of the Congress no later than October 1, 1988.

(d) INTEREST CREDITS.—Section 1202 of the Social Security Act (42 U.S.C. 1322) is amended by adding the following subsection at the end thereof:

"(c) Beginning with fiscal year 1986, the Secretary of the Treasury shall credit, by September 30 of the fiscal year with respect to which the credit is made, to the account (in

the Unemployment Trust Fund) of a State an amount equal to the amount which the Secretary of Labor certifies to the Secretary of the Treasury as the amount paid, during such fiscal year, by such State (and not compensated for by the Federal Government) as unemployment compensation to individuals who, while receiving such compensation, were in training with the approval of a State agency. Any such amount shall be credited against, and shall operate to reduce, any interest owed with respect to such fiscal year by the State on the balance of advances made under section 1201 to the State."

(e) REPORTS.—(1) Each State that is carrying out an agreement under this section shall submit a report to the Secretary of Labor on a quarterly basis with the following information:

(A) The amount of unemployment compensation paid by the State (and not compensated for by the Federal Government) during the quarter to individuals who, while receiving such compensation, were in training with the approval of a State agency.

(B) The number of such individuals.

(C) The total number of weeks with respect to which such compensation was paid during such quarter to all such individuals.

(D) The number of such individuals who during such quarter were in training programs conducted with funds provided under title III of the Job Training Partnership Act and the number of such individuals who were in other State approved training programs during such quarter.

(E) The number of individuals who, during such quarter, applied for a continuation of unemployment compensation benefits while in training with the approval of a State agency.

(2) The Secretary of Labor shall transmit to each House of the Congress an annual report, beginning not later than October 31, 1986, containing a detailed accounting of—

(A) the implementation of this section during the fiscal year preceding the fiscal year in which such report is transmitted; and

(B) the regulations and administrative procedures carried out by the various States during such preceding fiscal year in order to comply with section 3304(a)(8) of the Internal Revenue Code of 1954.

(f) STATE SOLVENCY.—Notwithstanding any other provision of law, the provisions of this section and activities carried out pursuant to such provisions shall not be taken into consideration in determining whether there has been a net

decrease in the solvency of any State unemployment compensation system.

TITLE III—PROCUREMENT TARGETING IN LABOR SURPLUS AREAS

SEC. 301. TARGETING FOR PROCUREMENT OF SUPPLIES AND EQUIPMENT IN LABOR SURPLUS AREAS.

The head of each Federal agency which procured supplies and equipment at a rate in excess of $1,000,000,000 in the fiscal year 1985 shall set targets, for each fiscal year beginning after September 30, 1986, for the procurement of such supplies and equipment within labor surplus areas, as defined by the Secretary of Labor. In setting such targets, the head of each Federal agency shall consider the serious impact on the economy in the United States of such concentrations of unemployment and the benefits to the Nation of reducing the concentrations of unemployment.

SEC. 302. REPORT REQUIRED.

Within 6 months after the end of each fiscal year beginning after September 30, 1986, the Director of the Office of Management and Budget shall report to the Committee on Labor and Human Resources of the Senate, the Committee on Education and Labor of the House of Representatives, the Finance Committee of the Senate, and the Committee on Ways and Means of the House of Representatives on the following:

(1) The number, amount, and percentage of contracts awarded by each Federal agency in labor surplus areas.

(2) The impact of such contracts on the unemployment rate in such areas.

(3) The impact of such contracts on the Federal costs incurred with respect to benefits paid under the Federal-State Extended Unemployment Compensation Act of 1970.

(4) Whether such labor surplus area contracts could be increased without adverse impact on Federal procurement.

TITLE IV—REPORT

SEC. 401. REPORT BY SECRETARY OF LABOR ON COMPUTER JOB BANK SYSTEM.

Before the end of the 6-month period beginning on the date of the enactment of this Act, the Secretary of Labor shall submit to the Congress a report containing the following information:

(1) The extent to which the nationwide computerized job bank and matching program authorized under section 465 of the Job Training Partnership Act (29 U.S.C. 1755) can be expected to increase employment opportunities in each State.

(2) The estimated cost of making such nationwide computerized job bank and matching program fully operational in the manner intended in such section.

(3) An estimated schedule of the dates by which such job bank and matching program could be progressively implemented until they are fully operational.

(4) The extent to which the development of such nationwide computerized job bank and matching program will require changes, including any increased or decreased costs, in the existing employment service operations in each State.

(5) The feasibility of providing financial incentives to States on the basis of the success rate of such job bank and matching program.

TESTIMONY OF
ROGER D. SEMERAD
ASSISTANT SECRETARY OF LABOR
BEFORE THE SUBCOMMITTEE ON
PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION
COMMITTEE ON WAYS AND MEANS

June 24, 1986

Mr. Chairman and Members of the Subcommittee, I am pleased to have the opportunity to appear before you today to present the Administration's views on H.R. 4469, the Extended Unemployment Insurance Reform Act of 1986, introduced by Congressman Pease. I am accompanied today by Shirley Peterson, Administrator of our Office of Employment Security; Carolyn Golding, Director of the Unemployment Insurance Service; and James Van Erden, UIS Actuary.

H.R. 4469 would:

(1) make major changes in the Federal-State Extended Benefits (EB) Program;

(2) establish demonstration projects to test the feasibility of using substate triggers for the EB Program and promotion of training programs for individuals receiving Unemployment Insurance (UI):

(3) establish a program of Federal procurement targeting in labor surplus areas; and

(4) require the Secretary of Labor to report to the Congress on a computerized job bank system.

Before commenting on the specifics of the bill, I would like to make a few general comments. In considering any legislative changes to the unemployment insurance system, we need to keep in mind the basic purpose of the system and its limitations. The primary purpose is to provide short-term income support to workers while they make the job changes inherent in a dynamic economy. It performs that function very well. But it is not the best vehicle for helping the long-term unemployed; our research indicates that the availability of long-term income support tends to discourage undertaking the readjustment process that is essential to workers permanently dislocated from their jobs. We need to recognize that sometimes, with the best of intent, our attempts to be helpful may actually have the opposite effect. Extended Benefits is one of these areas that warrants careful analysis of the probable, rather than the intended, result.

As we look forward over the next decade and a half -- to the year 2000 -- we can see that our labor force will experience significant changes. From our analyses of demographic and economic trends, we know that the labor force will grow more slowly and that the occupational structure will continue to change rapidly. Jobs will shift from goods production to services and an increasing number of vacancies for high skill jobs will need to be filled. Workers will continue to be dislocated from older industries but there will be increasing job opportunities in new industries and occupations.

Our examination of the role of the Extended Benefits Program, as well as unemployment insurance programs generally, should take into account these trends. Knowing that workers will move from one job or career to another several times during their lifetime, and that such changes will become even more commonplace by the turn of the century, we should aim to facilitate the transition that workers must make.

We should not put in place disincentives that hinder adjustment to a new job or career. If suitable new jobs are available, we should encourage workers to take them rather than continue them on income support. Rather than encourage false hopes for workers in need of help by simply offering more income support, we need to tackle the tough question of how these workers are to reenter the mainstream.

Several months ago I reported to you on a demonstration project that we have initiated with the State of New Jersey, to test and evaluate several forms of reemployment assistance that are not currently available to UI claimants on a regular basis. They include intensive job search assistance after employment counseling, retraining where its desirability is indicated, relocation assistance, and a wage subsidy incentive for more rapid reemployment. Ten million dollars is requested in the President's FY 1987 Budget to continue this project through the fiscal year and to provide for its modification and replication in other States.

As you are probably aware, last year Secretary Brock established a task force to examine the whole issue of economic adjustment policies for dislocated workers, including the adequacy of income support for these workers. The task force is scheduled to report to the Secretary at the end of this year. In addition, I have established a policy group within the Employment and Training Administration to examine the relationship of the Unemployment Insurance, Trade Adjustment Assistance, and Job Training Partnership Act programs in facilitating worker readjustment.

We now have the time to give this important issue the consideration it deserves. The economy as a whole is healthy:

- Employment, at 109 million, is at an all time high.
- Insured unemployment, at 2.8 percent in May, has stabilized.
- The rate for individuals exhausting benefits, at whom this legislation is directed, was 31.7 percent in the Third Quarter of 1985 -- the lowest rate since early 1980. Only two States are now triggered "on" for extended benefits.

Now, Mr. Chairman, I would like to turn to the specifics of H.R. 4469.

Title I would increase the maximum number of weeks of Federal-State Extended Benefits (EB) from the present 13 weeks to as much as 30 weeks, from a combined regular UI plus EB of 39 weeks to a combined maximum of 56 weeks. The Federal share of EB payments, now set at 50 percent, could reach as high as 90 percent, depending on a State's unemployment rate.

Instead of using the currently calculated IUR as the EB trigger, the bill would substitute two alternative choices and use whichever is the more likely to trigger payment -- a seasonally adjusted Insured Unemployment Rate (IUR), not available from current records, or a total unemployment rate (TUR), for which data are now only available with any degree of accuracy in a few large States.

These changes would result in trigger calculations of doubtful validity, and would clearly raise the cost of the EB program very greatly. We estimate that Title I would increase outlays by $80 million in 1987 and $360 million in 1988, assuming enactment of conforming State legislation by July 1, 1987 -- an unlikely occurrence. With the rates

of unemployment that transpired in 1982 and 1983, additional costs would be $480 million and $1.8 billion in 1987 and 1988, respectively. We must oppose this proposal.

Title II would require the Secretary of Labor to conduct two demonstration projects:

(A) The first would require that agreements be made with at least 3 States to test the feasibility of using substate area triggers for payment of EB.

Mr. Chairman, in 1984 the Department of Labor reported to Congress on the feasibility of using substate areas. Our conclusion, which would apply as well to such an experiment, was that "[i]t is not currently feasible to implement a [substate area] program which follows generally accepted principles upon which current UI programs are based and meets reasonable standards of accuracy and timeliness." The report further suggests that such a plan would require "a significant increase in resources," a lead time of some 2 years, and resolution of difficult policy and technical issues. In order to get estimates that meet BLS's standards of reliability for Standard Metropolitan Statistical Area, for example, the overall Current Population Survey sample would have to be expanded approximately tenfold. Many issues would have to be addressed before a program could be designed which might provide the basis for evaluating the use of substate areas, including trigger rate criteria and computation, individual eligibility, definition of areas, and administrative and cost issues.

We continue to have the concerns expressed in the report. There are no resources available for such expenditures in the FY 1987 Budget proposal. Furthermore, the results from such a study would be flawed and could not justify the costs it would generate, even if funding were available.

(B) The second study proposal relates to a 5-State promotion of training programs for individuals receiving UI. Given the New Jersey demonstration project and the initiatives currently underway in a number of States with their own financing, we believe the suggested demonstration project is redundant.

Also included in the bill are permanent changes in Federal law that would credit the amount of all UI benefits paid in a State to individuals in approved training against any interest due upon loans, and provide that any State costs would not be considered in evaluating a State's solvency efforts. We believe such interest credits represent an inequitable distribution of benefit costs between States which have unpaid interest-bearing loans and States which have by their own efforts avoided borrowing from the Unemployment Trust Fund. Any income to the U.S. Treasury lost by the proposed credits would add to the Federal deficit.

Title III (Targeting for Procurement of Supplies and Equipment in Labor Surplus Areas) would require that Federal agencies, which procure supplies and equipment in excess of one billion dollars in a fiscal year, establish targets for procurement designated for labor surplus areas (LSAs). Additionally, the Office of Management and Budget (OMB) would report to the Congress, within 6 months after the close of each fiscal year, on the number, amounts, and percentage of contracts awarded in LSAs, the impact of such contracts on the unmployment rate in such areas, the impact of such contracts on benefits paid under the Federal-State Extended Unemployment Compensation Act of 1970 (EB), and whether contract awards in LSAs could be increased without adverse impact on Federal procurement activities.

These proposed requirements are not within the purview of this Department. We defer to the Federal agencies with procurement programs at the billion dollar level for comment on the feasibility and desirability of targeting contracts to LSAs. With respect to the required report, we defer to OMB, which would have the responsibility for its preparation. It does appear to us that determining the impact of contracts awarded on unemployment rates and benefits paid under the EB program would be an extremely difficult task. It very well might not be attainable, especially within the time frame of 6 months after the end of each fiscal year.

Title IV would require that the Secretary of Labor furnish a special report to the Congress on the costs and probable accomplishments of a fully operational, nationwide computerized Job Bank system and job matching system. This report would be due 6 months after enactment of H.R. 4469.

This Department currently furnishes, in the Employment and Training Report of the Secretary, an annual report on implementation of the Job Bank system and State job matching activities.

The Department does not consider that expansion to a nationwide Job Bank system is warranted at this time, given current resource levels and the fact that less than 2 percent of all individuals placed in jobs by the State employment services are placed through the Interstate Job Bank in current operation. Nor do we favor increased Federal funding for additional development of already fully operational State job matching programs.

We have taken a decentralized approach to the promotion of job matching programs. These programs are designed and funded by the States, using the current employment service base financing. This arrangement has been extremely effective; some States have designed and implemented fully automated on-line job matching systems, and others have localized the design or have developed batch-match systems, as dictated by local needs and circumstances.

In conclusion, for the reasons I have indicated, we cannot support H.R. 4469. It is essential that we focus our efforts on those things that will facilitate the American labor force's adaptation to a changing job market. We have an opportunity, since the demographics are working in our favor. The youth population and the labor force generally are growing more slowly, and job opportunities will continue to increase, particularly in the service sector. Our limited resources should be used for policies and programs that will help workers who lose their jobs make the transition to new jobs and occupations. We believe H.R. 4469 would be an obstacle to making those adjustments.

Mr. Chairman, this concludes my prepared statement. At this time my colleagues and I would be pleased to answer any questions that you or other Members may have.

Statement
on
Proposals to Reform Extended Unemployment Compensation
before the
Subcommittee on Public Assistance and
Unemployment Compensation
of the
House Committee on Ways and Means
for the
U.S. Chamber of Commerce
by
Donald P. Whiteley
June 24, 1986

I am Donald P. Whiteley, Personnel Employment Representative for ICI Americas, Inc., a former Secretary of Labor for the State of Delaware, and the Chairman of the U.S. Chamber of Commerce's Council on Unemployment Compensation. Accompanying me is Robert L. Martin, Associate Manager, Community Resources Section of the U.S. Chamber, and staff executive for the Council on Unemployment Compensation.

We appreciate the opportunity to present the Chamber's views on current proposals to reform the unemployment compensation system. We commend the Chairman and the Subcommittee members for holding these hearings at which the representatives of the employer community can participate in Congressional deliberations on this important issue. Fortunately, record high levels of employment and correspondingly low unemployment rates eliminate the urgency usually associated with hearings on this issue. We believe these two important national developments allow for the thorough consideration of the legislation before this Subcommittee.

The Chamber is committed to assuring the long-term viability of this country's unemployment compensation system, a federal-state partnership that fairly and promptly serves the needs of employees and employers. Under this system, qualified workers are provided with weekly income maintenance payments to assist them through periods of temporary, involuntary breaks in employment. Also, employers are assured of a stable work force through their contributions to federal and state unemployment compensation accounts. We also recognize the need to assist those workers facing prolonged unemployment. As a result, we continue to support the full implementation of the services provided under the Job Training Partnership Act (JTPA) for dislocated workers and look to the newly reauthorized Trade Adjustment Assistance (TAA) program to further assist the long-term unemployed.

Background

The unemployment compensation system has been an integral part of the American social insurance system since 1935. The unemployment compensation system was designed and operates as a program of income maintenance for workers experiencing temporary and involuntary unemployment. A key point of this federal-state partnership is that each partner has clearly defined roles and responsibilities. The objectives of the unemployment compensation system are threefold: first, to alleviate financial hardships of temporarily unemployed workers; second, to encourage stabilization of a community's employment; and third, to help cushion the overall economy from the effects of periodic economic downturns by retaining a portion of workers' purchasing power.

Federal law established the current federal-state partnership by providing the bases for creation of state programs and program administration, as well as the types of employment insured. Within the parameters of the law, states are free to determine such issues as the amount and duration of cash benefits, conditions of benefit qualification, method of individual employer experience rating and related matters. As an important element, each state program reflects its unique economic and social conditions, and each state has created programs tailored to its perceived short-term and long-term needs, including cyclical variations.

This state-federal partnership not only has met the needs of benefit recipients, but also it has greatly assisted states in meeting problems caused by economic downturns. In response, the Chamber totally opposes any efforts to federalize the current system by mandating federal standards, i.e., national triggers or benefit standards.

Financing the Unemployment Compensation System

The unemployment compensation system is financed by two payroll taxes--one federal and one state. The Federal Unemployment Tax Act (FUTA) is a nationwide payroll tax on employers, against which credit is allowed either for state unemployment taxes paid or for reductions in such taxes earned through experience rating. Virtually all costs of benefits for jobless workers and administrative expenses are financed by these payroll taxes. Currently, only four states collect additional employee contributions.

The Chamber supports the present form of unemployment compensation financing because program costs are distributed equitably and provide employers with incentives to stabilize employment and to take an active interest in the program. Further, it supports the use of experience rating as the basis for establishing unemployment compensation tax rates. This method of cost allocation promotes equity in unemployment compensation financing and avoids socialization of program costs.

Unemployment Compensation Benefits

Presently, states establish and maintain benefit duration levels and schedules, as well as eligibility criteria and work search requirements. The Chamber supports employer financing of regular benefits for the first 26 weeks of unemployment. Additionally, it supports funding of the permanent Extended Benefits (EB) program (50% state unemployment tax, 50% FUTA). However, these benefits must be provided only to eligible claimants--those temporarily and involuntarily unemployed.

The Chamber supported the important reforms made to the EB program in 1981. The reforms targeted the EB program to those in need of assistance. This targeting was achieved by eliminating the use of a 4.5% nationwide "insured unemployment rate" (IUR) trigger; raising the state triggers by 1%; eliminating EB claims from IUR calculations; and limiting eligibility for EB to individuals who had worked at least 20 weeks or the equivalent.

In addition to the changes made in 1981, we continue to support the following concepts regarding benefits, qualifications, and duration of unemployment compensation benefits. These are designed to provide temporary assistance to unemployment compensation claimants and incentives to return to work.

1. As an incentive to return to work, benefits should provide a sufficient differential between the claimants' benefits and prior earnings.

2. States should review periodically (and revise if necessary) benefit schedules in light of changed conditions.

3. Unemployment compensation benefits should be paid to persons with a demonstrated attachment to the work force who are actively seeking employment, not to persons unemployed as a result of a labor dispute.

4. Prior to a claimant recovering EB, there should be a noncompensable one-week waiting period.

5. EB should not be allowed if the reason for termination of benefits was voluntary leaving, misconduct, failure to seek or accept work, etc.

6. EB should focus on helping claimants find new jobs and provide states with incentives to discontinue participation in the program.

7. Claimants should be required to complete work search training programs as an eligibility requirement for EB.

8. Out of fairness, covered employers who are exempt from the FUTA should be required to pay the full cost of benefits attributable to service performed for them and make an appropriate contribution to the administrative costs.

9. Special federal unemployment benefits should be paid only at the same weekly rate and for the same duration as regular benefits. If special benefits must be paid, they should be limited to persons who agree to enter retraining programs.

Beginning in January 1975, federal legislation provided for federal supplemental benefits (FSB) for qualified workers. From its inception to January 1978, the FSB program provided for up to 26 weeks of additional benefits. As a result, a qualified worker, combining FSB, EB and regular benefits, could have received benefits payable for up to 65 weeks. The FSB program expired in 1978, and until 1982 unemployed workers continued to be eligible for regular and extended benefits. A new supplemental benefit program, federal supplemental compensation (FSC), was enacted in 1982 and modeled on the previous FSB program. (The FSC program expired in March 1985.) The FSC program, while financed by employers, created a debt in the Federal Extended Unemployment Compensation Account that is still being repaid by a temporary 0.2 percent federal tax on employers. Clearly, this is not the time to contemplate reauthorizing a new FSB-type program.

Extended Unemployment Insurance Reform Act of 1986

H.R. 4469, the Extended Unemployment Insurance Reform Act of 1986, would revise and expand the current federal extended benefits unemployment compensation program in two fundamental ways. First, this legislation would allow qualified unemployed workers to be eligible for a maximum of 30 weeks of extended benefits coverage, if the adjusted rate of insured unemployment equals or exceeds eight percent in the previous three-month period. Second, it establishes demonstration projects to study substate extended unemployment compensation triggers.

In March 1985, the Congress failed to reauthorize legislation to extend the federal supplemental compensation program. Although the FSC program had been in effect for more than three years, it was clear that the needs of the long-term unemployed - those receiving FSC benefits - were not being met by this program. In reality, FSC payments were allowing recipients to postpone making critical decisions regarding their re-entry into the work force for an additional 13 weeks. We believe that this represents a waste of human resources and public dollars. Unemployed workers who have demonstrated a productive attachment to the work force must be encouraged to seek aggressively new employment. If they do not possess the skills and abilities needed in the work force, federal, state and local programs are currently in place to retrain and re-educated these workers. The Chamber continues to support those programs providing assistance to long-term unemployed workers, such as the JTPA program. If such training programs are ignored, no one is served--least of all benefit recipients--by a program of protracted, extended unemployment benefits.

H.R. 4469 would direct the U.S. Department of Labor (DOL) to establish at least three state demonstration projects to study the feasibility of using substate areas for the payment of unemployment benefits. In theory, the use of substate triggers would allow for the collection and analysis of local labor force information and allocation of benefits on the county level. It is believed that this method of serving the unemployed would be more responsive to local needs and benefit highly distressed counties. However, a recent DOL study identified a series of issues that we believe must be addressed in designing any benefit extension program using substate areas. We believe that three of the issues are of particular importance and warrant further consideration by this Subcommittee before it reports legislation. These include:

1. Identifying the appropriate trigger rate options. The focus of this issue is the controversy surrounding whether to use the insured unemployment rate (IUR), the total unemployment rate (TUR), or some combination or variation. We believe that linking any new program to the TUR rate is unfair and discriminatory. Statistically, the TUR is an unreliable measure that includes those individuals not counted in the IUR. Further, the Chamber believes that triggers should be based on the population eligible for benefits, not all unemployed workers.

2. Establishing rate computation and trigger criteria that reflect seasonal fluctuations and the uniqueness of state laws. A strength of the current unemployment compensation system is the stablizing role played by state governments. Creating substate programs would undermine the states' role and the underlying premise of the unemployment compensation program--a federal--state partnership.

3. Identifying the administrative problems and costs. Although implementing a substate program for extended unemployment benefits may be possible, we question the necessity. Proper lead time, administrative complexities of 53 state programs, and new reporting/data collection costs would place significant new burdens on the unemployment compensation system and employers. At a time when budget deficits are a national concern, we should not be adding to federal budget outlay or employer costs.

In addition, a fourth important concern is the validity of statistical sampling of subunits of a state. Whereas pockets of unemployment may be used to create a trigger or judgement point in dispensing unemployment benefits, it must be realized that without proper validation, such subunits may be statistically representative of no areas other than themselves. In short, public policy could be misdirected severely by using the wrong subunits of a state.

Conclusion

The U.S. Chamber continues to support a strong unemployment compensation system for the temporarily and involuntarily unemployed. Historically, we have been pleased to be able to work with the Congress and the Administration selectively to reform unemployment programs. For example, we supported the 1981 reform of the extended benefits program. Our support of such initiatives is based on our belief that an unemployment compensation system should encourage, not discourage, participants to return to work as soon as possible and avoid lengthening the duration of benefits and the human tragedy of unemployment. We believe that H.R. 4469 fails to support this important principal. Therefore, we can not support this legislation.

TESTIMONY OF
JOHN P. DAVIDSON

My name is John P. Davidson. I am an attorney with Chrysler Corporation and am involved in the overall administration of the unemployment insurance programs for all states in which we have operations.. Most of my activities have been centered in Michigan since almost half of our employment is located there. I am actively involved in the Employers' Unemployment Compensation Council legislative committee and am also on the Michigan Employment Security Commission Advisory Council.

I come here today to speak in opposition to HR 4469 on behalf of employers and the Council of State Chambers. Accompanying me is William Brown, President of the Council of State Chambers.

The unemployment insurance (UI) system was established to accomplish three objectives:

1. Replace a portion of a worker's wage during periods of temporary unemployment.
2. Maintain purchasing power in the people to cushion the negative impact unemployment has on the economy.
3. Encourage employers to provide more stable employment.

To accomplish this, basic UI programs provide up to 26 weeks of benefits. These benefits are paid from a trust fund made up of funds contributed by the employers of the states. During more severe recessionary times, up to an additional 13 weeks of UI benefits are paid. These benefits are known as Extended Benefits (EB). Half of the EB are financed by funds collected by the federal government under the Federal Unemployment Tax Act (FUTA) and the balance from the state UI trust funds. In either event, the benefits are paid from funds accumulated from payroll taxes on the employers.

Extended UI benefits are paid only when the insured unemployment rate (IUR) in the state equals or exceeds 6%. In 1981, the percentage was changed by Congress from 4% and 5% when Congress recognized those percentages were unreasonably low and did not reflect a true recessionary period. HR 4469 would reinstate the 4% IUR as a trigger for extended benefits. This would return the triggers to a point Congress has already said is unreasonably low.

HR 4469 also provides an alternate rate for triggering EB payments. That is the Total Unemployment Rate (TUR). Utilizing that figure is not realistic as it does not provide benefits to all of the people included in the TUR. Only those who had benefits payable under a regular benefit plan would qualify. People not included in the IUR but included in the TUR would be people like new entrants to the labor market, such as students just graduating or seeking summer work, and those not truly in the labor market such as retirees seeking something to fill their time.

Further, the TUR is not an accurate reflection of the degree of recession. It is based on a small sampling of households rather than actual numbers of individuals claiming benefits related to those

working. Because of this the IUR is a truer reflection of the unemployment conditions.

HR 4469 also suggests using "substate areas" to determine benefit entitlement. To do this would create a very costly administrative nightmare. There could be one area where no EB is payable set next to one paying some EB and another paying full extended benefits. With an individual living in one area but having worked in another, how does the agency know whom to pay? In which area would such and individual be included to determine the unemployment rate? It would be difficult, at best, to keep track of the individual's benefit entitlement as well as the possible fluctuation of duration from area to area. This suggestion would create more problems than it is worth.

Representative Pease (D-Ohio) stated on March 20, 1986, when he was introducing this bill, "To me, it seems only common sense that Congress should act now - while official unemployment levels are relatively low ..." If this bill were passed into law, many states now not paying EB would immediately trigger "on". At a time when so many states are still in debt to the federal government from the recessionary period just ending, it is very ill advised to add a further financial burden on the trust funds at this time.

That brings me to my final point - Financing of this bill. Most states are suffering from a lack of administrative funds to adequately handle the basic programs. Requests for supplemental financing are being denied. Gramm-Rudman-Hollings is also causing allocations to be reduced further exaserbating the problem. Yet, if this bill were passed, the states must do all the extra work to set up the program and have people available to service the individual claimants.

Funds to pay for the benefits also are doubtful. Although HR 4469 says the federal government would pay most of the benefits, the trust funds of the states must still pay a portion, up to 50%. As said a moment ago, this would put an unreasonable stain on trust funds still trying to recover from the last recession. The employers of this country, who finance the state portion of EB in all but 14 states, would again be asked to dig deeper to finance these extra benefits. Wouldn't it be better to let the employers use this extra money to create jobs? As said in the beginning, one of the objectives of the UI system is to create stable employment. Employers should be given every opportunity to do this.

Gramm-Rudman-Hollings is also inpacting the benefit payments. Federal funds are being cut in the same proportion as all other budget cuts. Where is that money coming from if the bill is passed? We don't accept it coming from the trust funds or the employers.

Based on all of the above, we feel you should not pass HR 4469 at this time. We ask for your vote accordingly.

Thank you for your time and consideration of these comments.

STATEMENT OF

THE NATIONAL ASSOCIATION OF MANUFACTURERS

ON

PROPOSALS FOR A REVISED PROGRAM OF EXTENDED UNEMPLOYMENT COMPENSATION

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

OF THE HOUSE WAYS AND MEANS COMMITTEE

JUNE 24, 1986

Mr. Chairman and members of the Subcommittee, I am Warren Blue, Senior Vice President and General Counsel of R. E. Harrington, Inc. I am testifying today on behalf of the National Association of Manufacturers as Chairman of the Unemployment Compensation Subcommittee for NAM. Accompanying me today is Jim Conway, Director of NAM's Human Resources and Equal Oppportunity Committee.

The National Association of Manufacturers is a voluntary business association of more than 13,500 corporations, large and small, located in every state. Eighty percent of the firms are considered to be small businesses. NAM member companies employ 85 percent of all workers in manufacturing and produce over 80 percent of the nation's manufactured goods. NAM is affiliated with an additional 158,000 businesses through its Associations Council and the National Industrial Council.

On behalf of our members, the National Association of Manufacturers is pleased to submit our views on proposals to revise extended unemployment compensation through adjusting mechanisms tied to the Insured Unemployment Rate (IUR) and the Total Unemployment Rate (TUR).

I. THE UNEMPLOYMENT INSURANCE SYSTEM

The NAM believes that far reaching changes in the structure of the Unemployment Insurance (UI) system are unnecessary. There should be an examination of the costs and effectiveness of some of the extended benefits programs, a decrease in federal involvement in the system, and a renewed effort to halt abuse and overpayment of benefits. Our main concern is that the UI system remains targeted to accomplish its original objectives.

The objectives of the UI system are fairly simple. Unemployment insurance is designed to serve the needs of workers, genuinely part of the workforce, who are temporarily and involuntarily unemployed for job-connected reasons. Those individuals receiving assistance should be actively seeking employment while receiving benefits. The dynamic nature of our industrial economy may bring cyclical periods of involuntary unemployment. Unemployment Compensation (UC) sustains the purchasing power of individuals who are out of work, cushioning the decrease in the demand for goods and services and thereby preventing secondary or tertiary levels of unemployment. For these reasons, UC is beneficial to employers and the cost of benefits may rightly be treated as a cost of doing business.

This is how the UC system was conceived in 1935; however, the system now has strayed to where it produces ever increasing demands for federal revenues. These revenues are financed by taxes on employers and general revenues that result in higher budget deficits.

The NAM believes that the UC system should be returned to its original goals and that the increasing federal involvement in the system should be limited. The responsibility for administration of sound public unemployment compensation systems should remain with state governments. Federal legislative and administrative action already exceeds its proper scope.

Congress originally gave the states discretion to structure their individual state UC programs. The states may thus determine the amount and duration of benefits, conditions of benefit qualification and related matters. These programs reflect the unique economic and social atmospheres of each state and respond effectively to cyclical variations.

State-administered unemployment compensation systems should provide reasonable benefits to the eligible unemployed. These benefits should not impair the incentive to look for and accept work. As a partial wage replacement program, benefits should not be adjusted on the basis of relief concepts.

The NAM believes that unemployment benefits should be related to earnings and service from previous employment and constitute a partial indemnity for loss of wages. Adjusting the amount of

benefits on the basis of presumed or established "needs" is inconsistent with the purpose and philosophy of UC and must not be permitted. State-administered unemployment compensation systems should be fair to all and should provide reasonable benefits for all eligible individuals while preserving the incentive to look for and accept work.

II. THE FEDERAL SUPPLEMENTAL COMPENSATION PROGRAM

Before this Subcommittee in March of 1985, the NAM testified on legislation to extend the Federal Supplemental Compensation (FSC) program. Unlike the UC system, which is financed primarily by state and federal payroll taxes on employers, FSC was financed from federal general revenues. The FSC operated to provide 8 to 16 weeks of additional benefits to claimants who have exhausted benefits under the regular and extended benefits (EB) programs. The maximum duration fluctuated with the state insured unemployment rate (IUR).

Congress acted responsibly in refusing to extend the FSC program. The result of this action has been a marked improvement in the overall UI program. Any subsequent proposals to revise this program or other extended benefit policies should be examined carefully.

III. PROPOSED CHANGES IN THE UNEMPLOYMENT INSURANCE SYSTEM

Several years ago our country experienced a recession marked by high unemployment rates. The economy has now significantly improved and the May 1986 unemployment rate stands at 7.3 percent. There are now more Americans in the workforce than at any time in our history. Although the current unemployment rate is too high, NAM believes we should encourage continued economic growth as the best long-term solution to the unemployment problem.

Employers have been subject to several increases in their Federal Unemployment Tax Act (FUTA) payments in the last decade. There have been several proposals for changes in the UI system in the areas of benefit duration, trigger mechanisms and unemployment measurements that could lead to future increases in FUTA if inacted. The NAM believes that this would have a negative impact across the board. Employers subject to higher FUTA taxes would have less money to invest in plant modernization and retraining programs.

Individuals without jobs would have less oppportunity in such a stagnant economic atmosphere. The federal government would then have to expend additional revenues.

The NAM also opposes the diversion of UC trust funds for non-UC purposes and opposes automatic FUTA wage base increases.

Any approach to the problems of temporary, involuntary job-connected unemployment should aim to remove the causes rather than simply allay the symptons. The FSC and its predecessor, the Federal Supplemental Benefits (FSB) program, have left the Extended Unemployment Compensation Account with a serious deficit problem. Net federal advances to states that have depleted their benefit reserves have continued despite our recent economic growth. Increasing extended benefits will only drain revenues further and prevent repayment of state debt and increase financing problems.

Since 1982, borrowing states have been required to pay interest on federal advances. Though some borrowing states have qualified for deferral of interest due, most states have continued action to restore solvency. The current Department of Labor (DOL) debt repayment forecast appears promising. According to DOL, of the 16 states repaying loans through reduced FUTA credits, all but three are expected to complete repayment by 1989. A vigorous economy may accelerate those repayments.

IV. THE EXTENDED UNEMPLOYMENT INSURANCE REFORM ACT OF 1986

H.R. 4469, The Extended Unemployment Insurance Reform Act of 1986, proposes major revisions in the Federal-State Extended Unemployment Compensation Act of 1970 (F-S EB). There are a number of changes contained in this legislation that the NAM believes would have an adverse effect on the UI system.

First the bill would strike out the current maximum of 13 times the weekly benefit amount (WBA) payable and substitute "applicable limit" as the determining factor. H.R. 4469 would strike out the overall maximum (for regular UI plus EB) of 39 times WBA and substitute "a number equal to 26" plus the "applicable limit."

The "applicable limit" would be determined by a sliding scale formula. For example, where the insured unemployment rate (IUR) stood at 7 percent, the applicable limit would be 25 weeks. A 4 percent rate would bring 10 weeks of compensation. Even with more

people currently employed in this country than ever before, our current IUR stands at 7.3 percent. Therefore, the applicable rate would more likely be found near the maximum number of weeks than the minimum.

Beyond this measurement for extended compensation eligibility, H.R. 4469 also provides for another means of computation. Applicable limit can also be determined on a state-by-state basis by using the Total Unemployment Rate (TUR). The TUR for a particular state is arrived at by a survey undertaken by the Bureau of Labor Statistics (BLS) of a certain number of households in each state.

The survey asks members of targeted households if there are individuals who are currently without a job who would desire to work. Thus, if an individual had not worked for many years, that person could be counted in the TUR if a desire for work was expressed. If the TUR results in a higher applicable limit for a state then the IUR, the former will be used to determine the length of extended benefits.

There are several problems inherent in using the TUR system to determine length of extended benefits. Initially, the TUR number is, we believe, of questionable validity. A survey which asks a limited number of people if they want to work without reference to past employment or present skills should not be the yardstick for determining the payment of extended benefits.

More importantly, this type of determination is not consistent with the ideals or purposes of the UI system. Benefits are paid to individuals who have, through no fault of their own, lost their jobs. The benefits are paid to help these individuals, in the short-term, while they await the call back to their former positions (in the case of temporary layoffs) or to help them adjust temporarily during the search for a new job. The UI system also provides an incentive for employers to maintain workforce stability by linking their FUTA taxes to experience rating.

Determining the length of extended benefits by using the TUR is simply not consistent with the established purposes of the UI system. Benefit payments must be limited strictly to compensation for periods of temporary, involuntary job-connected unemployment. Unemployment of durations longer than those of temporary unemployment periods, as determined by the individual states, is

symptomatic of far greater, more deeply ingrained economic problems than those for which employers can reasonably be held responsible.

There are other practical problems that would have to be confronted if H.R. 4469 were enacted. The bill permits trigger mechanisms for extended unemployment compensation to be activated in a much easier fashion than before. Also, it will be harder to terminate these triggers.

It is unclear as to how the bill would be financed. It is evident that FUTA taxes and federal general revenues are to be used. With the passage of Gramm-Rudman, the limitation on federal spending will probably mean that extended claims will be financed in large part by states and employers.

There is also a problem with the sub-state triggers contained in H.R. 4469. First, such a system would be extremely difficult to administer. The fact that there would be a substantial increase in the amount of extended benefits would make the program more costly. Sub-state triggers would also be discriminatory in that individuals living across arbitrary borders would be treated differently.

H.R. 4469, though noble in purpose, would weaken the overall effectiveness of the UI system by stretching the system beyond its original mandate. Extended compensation would also act as a disincentive for the structually unemployed to seek new job skills through training programs.

V. CONCLUSION

The continued improvement of the UC system cannot be accomplished without making every effort to identify fraud and abuse within the system. Overpayments have been estimated by the DOL's random audit to be as high as $2 billion. The very integrity of the UC system is challenged by this abuse. The NAM supports the quality control that DOL is formulating to detect and correct overpayments.

The UI system has achieved many of its original goals. Workers are compensated for periods of temporary, involuntary job-connected unemployment. There is, in turn, an incentive for employers to stabilize employment and a cushioning effect on the economy during recessionary periods.

The UI system should not be weakened by additional burdens such as permanent extended benefits programs. Administration of these

programs should remain with the states. Fraud and abuse within the system cannot be tolerated.

The NAM urges Congress to examine alternatives to long-term benefit programs, such as the JTPA, and provide incentives to return to work rather than lengthen the duration of unemployment eligibility.

It should be realized that the most important overall goal that employers and employees share is a strong and vital economy. It is only with a favorable economic atmosphere that job oppportunities will be available and the need and cost of the entire UC system significantly reduced.

The NAM would like to take this oppportunity to commend the Subcommittee for scheduling this hearing. The unemployment insurance (UI) system is of great concern to the manufacturing community. There are important issues inherent in our current UI system which must be addressed in order to effectively serve the involuntarily jobless workers for whom the system was designed. Our members, large and small, have a particular interest in the UI system and its maintenance since it is largely financed by employers, in addition to some general federal revenues. We support a sound unemployment insurance system that is consistent with its original purposes.

STATEMENT OF FRED KNIESLER, ASSISTANT COMMISSIONER FOR

INCOME SECURITY, NEW JERSEY DEPARTMENT OF LABOR

Mr. Chairman, members of the Subcommittee, my name is Fred Kniesler. I am Assistant Commissioner for Income Security, of the New Jersey Department of Labor. I appear before you today on behalf of the Interstate Conference of Employment Security Agencies, Inc. (ICESA). ICESA is the organization of state administrators of unemployment compensation laws and public employment offices throughout the country. We appreciate the opportunity to present our views concerning changes to the federal-state extended unemployment compensation program.

Mr. Chairman, you are to be commended for scheduling a review of extended unemployment benefits at a time when the country as a whole is not experiencing economic recession. When unemployment is extraordinarily high, the pressure to provide additional benefits very quickly precludes careful consideration of long term changes. This is an excellent time to analyze the current program and potential changes to it.

As you know, the extended benefit program is funded jointly by the states and federal government. The program operates under state laws that must conform with the Federal-State Extended Unemployment Compensation Act. Prior to 1981, extended benefits (EB) were paid under the same terms and conditions as regular state benefits. Beginning in 1981, with federal requirements relating to suitable work and work search, numerous federal qualifying and eligibility requirements have been imposed. These requirements have all had the effect of restricting benefit payments. The elimination of the national trigger in 1981 and the increase in the levels of unemployment necessary for benefits to be available on a state-by-state basis in 1982 have also restricted extended benefit payments.

Almost all of these amendments have required conforming state legislation. On occasion, the amount of time between enactment of changes to EB and their effective dates has not been sufficient to permit all state legislatures to take the required action. This situation was particularly difficult for states in implementing the requirements of the Omnibus Budget Reconciliation Act of 1980, enacted in December 1980. Certain extended benefit eligibility requirements established by that Act were effective in April 1981, leaving less than four months for enactment of conforming state legislation and implementation of the changes. Many states were not able to meet the effective date. The Department of Labor's Office of Inspector General is now performing audits of extended benefits that were paid during this period. Several states have been told that they were not entitled to the federal share of any extended benefits paid after the effective date of the changes and prior to implementation of state legislation and will be required to repay those funds to the federal government.

Communication from the Department of Labor to the states regarding requirements for implementing the changes was confusing. States were told in February 1981 that implementation was not required until the week following the end of the next legislative session following enactment of OBRA. States were never told that reimbursement for the federal share of extended benefits was contingent upon timely implementation. DOL's pursuit of repayment of the federal share of EB holds states to a standard that they were not made aware of at the time benefits were paid. In addition, the time permitted for enactment of conforming legislation was unrealistic, making subsequent demands for repayment of benefits unduly punitive.

If extended benefits is to be a joint federal-state program, the federal partner should take the realities of state legislative schedules into account. As you consider changes to the program we urge you to provide ample time for enactment of conforming state legislation.

The bill before the Subcommittee today, H.R. 4469, would substantially revise the extended benefit program. This proposal was carefully analyzed by ICESA when it was considered last year. Our analysis found the following basic concepts of the bill to be very desirable:

- A variable number of weeks would be available based on the level of unemployment in the state.
- There would be a sliding scale of financial responsibility between the state and federal government--the higher the level of unemployment, the greater the federal share.
- There would be a similar sliding scale between Federal Unemployment Tax Act (FUTA) revenues and general revenues in paying for the federal share--the higher the level of unemployment, the larger the general revenue contribution.

Even though we support these basic concepts in the proposal, our analysis concluded that, as drafted, it would create a more complicated and much more costly program than we have at present. We are also concerned about use of the Total Unemployment Rate (TUR) as an alternate trigger.

We are concerned about costs because many states are still struggling to repay debts incurred during past recessions. Even those that have achieved solvency do not have sufficient reserves to finance benefits during even a short recession. We are concerned about use of the TUR because those rates, at the state level, are based on a relatively small sample and are consequently subject to large fluctuations from month-to-month which could create some inequities among states.

There are several technical issues concerning the trigger rates that we would like to address briefly. First, the alternate TUR trigger would be seasonally adjusted in states for which the Bureau of Labor Statistics (BLS) compiles data on a monthly basis. It is our understanding that the BLS does not recognize state TUR seasonal adjustment. Second, the weekly state insured unemployment rate would also be seasonally adjusted. It is also our understanding that the BLS discourages weekly seasonal adjustment of insured rates.

Our analysis of the proposal in H.R. 4469 led us to develop an alternative proposal which embodies some of the basic concepts of H.R. 4469, but is less costly overall and shifts a greater share of financial responsibility from the states to the federal government. An outline of this proposal is attached to my statement. This plan uses the insured unemployment rate as a threshold trigger; the number of weeks available in a state is determined by a tier trigger calculation that includes extended benefit claims as well as regular claims.

H.R. 4469 would also provide for several demonstration projects. One would require the Secretary of Labor to enter into agreements with at least 3 states to administer the revised extended benefit program on the basis of unemployment in substate areas. Each time that substate triggers have been considered in the past, the desirable effect of targeting benefits to areas where they are most needed has been outweighed by the practical problems of developing a feasible and fair method to do so.

First there is the question of equity. People often live and work in different jurisdictions. This proposal would determine eligibility on the basis of the location of the individual's most recent base period employer. (That employer is not necessarily the individual's last employer. In most states the base period is the first four of the last five completed calendar quarters.)

Paying benefits based on where the person worked will create situations where next door neighbors who worked different places may not both be eligible for benefits. Some unemployed workers who file unemployment claims at one local office may be eligible for benefits while others who report to that same office are not. This will not seem fair to those who do not qualify for extra benefits.

In addition to the issue of equity, there are practical problems in using substate unemployment data. Development of substate insured unemployment data would require employers to report each worker's job site in order to determine the covered employment totals for substate areas. Separate records of unemployed individuals based on the location of last base period employer would also have to be maintained. Local IUR data which are very volatile due to seasonal unemployment patterns, would be seasonally adjusted. Since no widely accepted state seasonal adjustment of weekly IUR data has been developed, seasonally adjusting substate areas, which would shift from month-to-month, would be a statistician's nightmare.

The alternate trigger using the Total Unemployment Rate (TUR) would also be extremely difficult to implement since TUR data are available only on a monthly basis, in most states about a month after the month for which the data were collected. Also, because of the small sample size in many states there is a wide range of variability.

If you should decide to go forward with substate demonstration projects, we encourage you to give states that might choose to participate the flexibility to experiment with some other substate trigger designs. The proposal in H.R. 4469 presents such massive technical difficulties that very likely no state would wish to try to implement it even on a demonstration basis.

H.R. 4469 also provides for demonstration projects in at least five states to promote training for individuals receiving unemployment benefits. The program would require participating states to: approve training for anyone whose prospects for employment would be improved by training; require the Department of Labor to evaluate implementation of the provisions; and, credit all benefits paid to individuals participating in training against any interest the state owed on federal loans.

Before taking this approach, the problem that this bill intends to solve should be more clearly defined. Are there, in fact, a substantial number of UI recipients who need and want training, who are in a position to obtain it through government programs or self financing and who are denied the opportunity to do so? There is a perception that the UI system is a roadblock to training that has not been documented and we do not believe exists.

The Office of Technology Assessment has published an excellent report, Technology and Structural Unemployment: Reemploying Displaced Adults (February 1986). That report tells us that education or training is the best route back to a good job for many displaced workers; however, the majority are much more interested in returning to work than in entering training or education. It also tells us that in the best-run JTPA Title III programs, where training and education are strongly encouraged, only about 20 to 35 percent of workers are likely to choose and benefit from vocational skills training. The report adds that basic UI benefits is the main source of income for most workers in training.

This information supports early intervention as the key to success with displaced workers. Those that need training should be encouraged to begin early while the maximum amount of UI benefits are still available. Any UI recipient who enters training provided by a JTPA Title III program may continue to receive benefits. Those that enter other types of training may also be approved under the state law.

The cooperative state-federal demonstration project now underway in New Jersey is designed to test whether those who are likely to exhaust benefits (e.g., dislocated workers) can be identified in the early weeks of UI. Some of those who are identified as likely exhaustees will be encouraged to accept retraining while others will be offered other reemployment assistance and incentives.

This approach is more comprehensive than the one proposed in H.R. 4469, because other reemployment strategies, in addition to training, are being tested. It makes more sense to us to test a variety of mechanisms to assist the structurally unemployed to return to the workforce rather than designing a demonstration program limited to retraining only.

In another area of the bill, the Interstate Conference supports Title IV which would require the Secretary of Labor to submit the Report to the Congress on the nationwide computerized job bank system. This particular system has undergone several major changes in design over the past decade, but has never reached its potential as an effective and efficient job matching mechanism.

Of a related, but no less important, issue is the status of automation in the individual State Job Bank Systems. Only a few State Employment Security Agencies have job matching programs utilizing state-of-the-art hardware and software systems. Most of our agencies are saddled with outdated equipment, substantially limiting their ability to service an ever growing and mobile labor force. This problem has been recognized for some time, and in Public Law 99-178, the Fiscal Year 1986 Labor Appropriations bill, the matter was identified for further study by the Department of Labor. In fact, a report was due to the Congress earlier this month, but to our knowledge nothing has yet to be submitted.

We are most anxious to make improvements to the National Job Bank system as well as the individual state programs and pledge our support in this regard.

That concludes my prepared remarks. I would be glad to respond to any questions at this time.

Test.J13

Attachment

Extended/Supplemental Unemployment Compensation Reform Proposal

HIGHLIGHTS

Threshold Trigger

- A state will trigger into and out of the program based on its 13-week average insured unemployment rate (IUR). The state will trigger on whenever the 13-week state IUR equals or exceeds 5 percent and remains at or above 5 percent for two consecutive weeks.

- States will have the option of requiring a 120% increase over the prior two years in addition to a 5% (13 week average) IUR in order to trigger "on".

Tier Triggers

- When the program is triggered "on", the maximum number of weeks available in a state will be determined by a tier trigger that is calculated independently of the threshold trigger.

- A state will begin an EB period in Tier I. After the first 13 weeks that the program is in effect, a tier trigger calculation will be made by determining an average IUR for the previous 13 weeks that includes regular program weeks claimed plus regular program exhaustees.

- All subsequent tier trigger calculations will use regular program weeks claimed plus extended program weeks claimed to calculate a 13-week average IUR.

Tier	Tier Trigger IUR	Maximum Weeks	Financing State	FUTA	GR*
I	5.00 - 6.00%	13	25%	25%	50%
II	6.01 - 7.00%	18	-	25%	75%
III	7.01% +	26	-	-	100%

Interstate Conference of Employment Security Agencies
January 1985

*General Revenue

Extended/Supplemental Unemployment Compensation Reform Proposal

Threshhold Trigger

A state will trigger into and out of the program based on its 13-week average insured unemployment rate. The state will trigger on whenever the 13-week state IUR equals or exceeds 5 percent and remains at or above 5 percent for two consecutive weeks; EB will be payable beginning the third week following the second consecutive week that the 13-week average IUR is 5% or greater.

States will have the option of requiring a 120% increase over the prior two years in addition to a 5% (13 week average) IUR in order to trigger "on".

A state will trigger "off" whenever the 13-week state IUR drops below 5 percent and remains below 5 percent for two consecutive weeks; no EB will be paid beginning the third week following the second consecutive week that the IUR is below 5%.

There is one exception to the trigger mechanism described above. There will be a minimum period of 6 weeks that the program will be "on" or "off" after a trigger indicator.

Tier Triggers

When the program is triggered on, the maximum number of weeks available in a state will be determined by a tier trigger that is calculated independently of the threshold trigger. The tier trigger is used only to determine the number of weeks available, not whether the program is "on" or "off." A state can change tiers only at 13-week intervals. A state will begin an EB period in Tier I. After the first 13 weeks that the program is in effect, the initial tier trigger calculation will be made by determining an average IUR for the previous 13 weeks that includes regular program weeks claimed plus regular program exhaustees. All subsequent tier trigger calculations will use regular program weeks claimed plus extended program weeks claimed to calculate a 13-week average IUR.

Duration of Benefits

When the tier trigger is between 5% and 6% the lesser of 13 weeks or 50% of the original entitlement will be available (a Tier I period); when the tier trigger is between 6.01% and 7% the lesser of 18 weeks or 70% of the original entitlement will be available (a Tier II period); when the tier trigger is 7.01% or greater, the lesser of 26 weeks or 100% of the original entitlement will be available (a Tier III period).

In order to qualify for the program initially, the claimant must have a current benefit year. He/she may continue to claim benefits for the duration of his/her entitlement as long as the program is triggered on. If the benefit year ends during that time it has no effect on his/her eligibility.

When a state drops from a higher tier to a lower tier, claimants who have established claims at the higher level will remain entitled to their remaining balance unless the program triggers off (i.e., threshold trigger drops below 5 percent for two consecutive weeks).

When the state moves to a higher tier, duration will be increased for claimants in current claim status and those who exhausted during the past 13 weeks. There is no requirement for a current benefit year to qualify for an increase in duration. The amount of additional benefits will be equal to the difference in what the claimant would have been entitled to had the initial EB claim been filed during the higher tier period and the amount he/she has already received. No more than 26 weeks of EB can be paid during any one benefit year.

Interstate claims will be based on economic conditions in the liable state.

Benefit Financing

Funding for the program will come from state UI tax revenues, Federal Unemployment Tax Act (FUTA) revenues and federal general revenues. During the Tier I (13 weeks maximum) period: 25 percent will be funded by state UI; 25 percent by FUTA; and, 75 percent by federal general revenue. During a Tier II (13 weeks maximum) period, 25 percent will be funded by FUTA and 75 percent by federal general revenues. During a Tier III (26 weeks maximum) period, 100 percent will be funded by federal general revenues. Claims based on wages from reimbursable employers will be 50 percent charged to the employer and 50 percent charged to federal general revenue for a Tier I period; 25 percent charged to the employer and 75 percent charged to federal general revenues for a Tier II period; and 100 percent charged to federal general revenues during a Tier III period.

Financial responsibility for an individual's benefits will be set at the time the initial extended claim is processed based on the tier level the state is in at that time. If the individual becomes eligible for additional weeks as a result of the state moving to a higher tier the additional weeks will be financed under the scheme of the higher tier.

Qualifying and Eligibility

There will be no federal qualifying or eligibility requirements for the program. The state will determine work and earnings requirements, disqualifying conditions and eligibility criteria, including job search requirements. Most states require claimants who remain unemployed for longer periods to consider, as suitable work, some jobs paying less than their previous employment. States would also have the ability to tailor work search requirements to local labor market conditions.

Administrative Funding

Experience with the current EB and FSC programs indicates that some changes should be made to provide more timely administrative funding. The current use of the ETA 2103 and ETA 2104 process of funding states for Extended Benefits should continue with minor changes. The current MPU's seem adequate for the workload items under the proposed program. The NPS dollars and support positions would be computed by the state using estimated workloads and shown on the ETA 2103 at the beginning of an EB period with the NPS percentage increased to the same as in the regular Base allocation instead of the current contingency percentage of 12 percent. The start-up cost and support for extended programs require separate and additional software adjustments, computer runs, file space, special forms, etc. which increase the NPS and support over the contingency rate. These costs are currently being absorbed by the State. The Extended Benefits program has the same support needs as other UI programs and NPS support should be funded at the same rate. Also the Extended Benefit program would be funded separately from the regular UI programs (ETA 2103 and ETA 2104 submitted and considered separately for each program). Earnings over the ETA 2103 estimates would be funded on subsequent ETA 2104 requests.

Effective Date

The effective date of the new program would be two years following the date of enactment.

SUBMISSION FOR THE RECORD

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW

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June 24, 1986

Honorable Harold Ford
Chairman
Subcommittee on Public Assistance
and Unemployment Compensation
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This communication is to share with you and the members of your Subcommittee the views of the UAW on H.R. 4469, the proposed Extended Unemployment Insurance Reform Act of 1986. We will appreciate your making this letter a part of your hearing record.

The UAW continues to support the improvement and restoration of the Extended Benefits (EB) program. In recent years, the long-term unemployed have been without an effective EB program. H.R. 4469 is a step toward needed reform. The UAW commends you, Mr. Chairman, for your continued interest and leadership on issues relating to unemployment compensation which is so important to the working people of our nation. We also wish to commend Representative Pease, the principal sponsor of H.R. 4469, for the leadership role he has played on this critically-important issue.

Workers deserve adequate protection from job loss. Unfortunately, the unemployment compensation system has not been providing adequate protection, especially to the nation's long-term unemployed. In April 1986, only one-third of the jobless received unemployment assistance. That means that over 5½ million people who were jobless went without any unemployment assistance. But the problem is even more serious. If we include the 1.1 million discouraged workers (discouraged workers are persons without jobs who have given up looking for work) the number of people who are out of work and without assistance rises to almost 7 million. The current situation in the summer of 1986 follows a year (1985) when the percentage of unemployed covered in an average month hit an all-time record low of 32.6.

There are several reasons why so few of the unemployed are receiving benefits. First is the continued high levels of unemployment. Even after three years of so-called recovery, we face unemployment rates previously associated with economic recession. In the six years since 1980, the unemployment rate has not fallen below 7 percent. Not since the Great Depression have we witnessed such a long period of high unemployment.

Another reason for the low level of unemployed receiving benefits is that budget reductions and changes in the unemployment insurance program have made qualifying for benefits more difficult and reduced the number of weeks jobless workers can collect assistance. In the 1981 Omnibus Budget Reconciliation Act, there was a substantial scaling back of the extended benefit program. Under the EB program, a jobless worker who has exhausted all regular benefits may receive up to 13 additional weeks of benefits. To be able to offer extended benefits, a state's unemployment level must exceed a threshold. The change in 1981 raised the threshold, making it nearly impossible for states to qualify for extended benefits.

Before the changes in 1981, a state could trigger an extended benefits if its insured unemployment rate (IUR) was above 4 percent and if its IUR was 120 percent higher than the state rate for the previous two years, or, if the state insured unemployment rate was above 5 percent. The 1981 reform raised both of these threshold rates by a full percentage point and eliminated a national trigger by which all states would qualify for extended benefits if the national insured unemployment rate was above 4.5 percent.

Currently, only two states, Alaska and Louisiana, qualify for extended benefits. However, the cuts in the extended benefit program had their greatest effect in 1983 and 1984 when unemployment rates were even higher than they are now. In the winter of 1983 when the national unemployment rate exceeded 10 percent, Michigan triggered off the EB program despite an unemployment rate of 15 percent.

We are encouraged that members of Congress recognize the need to remedy this situation. H.R. 4469 would, among other things, lower the trigger needed to be eligible for extended benefits. It would create a tiered schedule of benefits, based on a state's unemployment level, of up to 30 weeks of additional payments to the long-term jobless. The costs of this program would be shared by states and the federal government. The federal share would range from 50 percent to 90 percent depending upon state unemployment rates. We believe this is an equitable approach which would reduce the financial burden on states in which unemployment is high and of long duration and thus enable states to improve rather than cut back benefits for unemployed workers. The bill also provides for a demonstration project in which the Secretary of Labor would develop criteria that states would use in approving training for individuals receiving unemployment insurance. Current law prohibiting states from disqualifying claimants in approved training has not been effective. Most states have no criteria for approving training while on unemployment compensation.

We support these positive features. However, the maximum duration of extended benefits would be available to the long-term jobless only in those states with total unemployment rates of 13 percent or insured unemployment rates of 8 percent, with the additional requirement that the IUR equaled or exceeds 105 percent of the average of such rates for the corresponding 13-week period in each of the preceding 6 years. While the establishment of a program that would expand automatically as unemployment rose would be an improvement in the current system, this proposal does not go far enough. In our view, the levels of unemployment required to trigger an extended benefits continue to be too high. If a trigger must be used in the extended benefits program, the total unemployment rate (national or state) is the best available measure. When insured unemployment rates are used, the percentage of the prior six years' insured unemployment for each tier of benefits should be eliminated and recipients of unemployment compensation benefits under all programs should be included in the calculation of the insured unemployment rate.

If Congress truly wishes to restore an effective EB program, then additional restrictions passed in 1981 should be repealed. Several 1981 provisions override state eligibility laws. These include the requirement that an individual have 20 weeks of full-time covered employment and added work search provisions. In 1983, Congress slightly loosened the work search provisions, but many inequitable situations still arise. Claimants who meet the usual state UI eligibility standards and who exhaust their regular benefits should not be denied extended benefits through restrictive federal standards.

In the long term, we support a permanent extended benefits program that would set the maximum benefit duration at 65 weeks when unemployment at the national level exceeds the 4 percent goal set forth in the Full Employment and Balanced Growth Act of 1978, and 52 weeks otherwise. We believe that such a system would fulfill the objective of fairness and provide income protection to those who are most needy.

Although we support H.R. 4469 as far as it goes, we do not believe it goes far enough. Protection of the millions of unemployed workers currently without benefits will require more comprehensive reform.

Sincerely,

Dick Warden
Legislative Director

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